ESSENTIALS

OF

INTERNATIONAL TRADE

BY

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TO

AN INSPIRING

AND

NEVER FAILING ASSISTANT—

MY WIFE

PREFACE

This volume is the result of years of teaching foreign trade courses to university students. It is based upon personal investigations of the work carried on by governmental institutions and by private concerns as well as upon a careful study of the literature of the subject.

The author has aimed to give a comprehensive account of the public and private aspects of international merchandising, both in its underlying principles and in its practical application. The first part of the book deals with the significance of international trade, with theories and policies, with methods and agencies used by national authorities and by public organizations in order to control and to promote commerce with foreign countries; the second part considers the technique of exporting and importing.

Throughout the volume an attempt has been made to eliminate all unessential details, and to combine accuracy of statement with conciseness and clarity of presentation.

The author has been materially aided in his task through the information supplied and suggestions offered by many governmental officials in Washington as well as by secretaries of trade organizations and by business men in the various commercial centers of the United States. He expresses herewith his appreciation for this assistance. Special thanks are due to Messrs. Henry Chalmers, Grosvenor M. Jones, John Hohn and Archibald J. Wolfe, of the Bureau of Foreign and Domestic Commerce, and to Mr. Addison E. Southard, of the Consular Commercial Office,

for having read and criticized several chapters of the book when in manuscript form.

As the references at the end of each chapter are intended primarily for use by undergraduate college students, the writer has refrained from indicating any other sources of information than those in the English language. It is a regrettable fact, which should be recognized, that the lack of knowledge of foreign languages makes other literature unavailable to the majority of American students.

While this volume is intended as a text book, the author hopes that it may prove of service to American business men whose merchandising interests lie beyond the confines of our own country.

SIMON LITMAN

URBANA, ILL.
August, 1923

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ESSENTIALS OF INTERNATIONAL TRADE

CHAPTER I

THE NATURE AND SIGNIFICANCE OF INTERNATIONAL TRADE

Nature of International Trade.—There is fundamentally no difference between international, or what is often termed foreign trade, and domestic trade; under normal conditions both represent a private merchandising activity which is carried on for profit and consists of the purchase and sale of commodities. In international trade the objects of exchange are sent from one country to another; they usually cover greater distances than commodities moved in domestic trade, and on their way to and from the markets, they must cross political boundaries of states with their custom house barriers. These facts make the carrying on of foreign trade a more complicated pursuit than domestic merchandising. Some of the problems of those engaged in international trade are as follows:

1. Differences in the habits and tastes of the people, in their language and business customs.
2. Differences in currency, in weights and measures, in legal concepts.
3. Import duties and customs regulations which are usually so constructed and interpreted as to hinder the bringing of commodities into a country.
4. Fluctuating rates of exchange.

5. Distance between the exporting and the importing country, which makes the establishment of personal contact between buyers and sellers often more difficult than is usually the case in domestic trade.
6. The necesity of doing business through comparatively few sea-board terminals, with the resultant freight congestion and delay in the loading and unloading of ships and in the delivery and receipt of merchandise.

Desirability of International Trade.—Trade, whether domestic or foreign, is an exchange of values embodied in material objects. In the case of international trade, while this exchange is carried on just as in domestic commerce by private individuals, it involves the subtraction of certain values from one national group and their addition to another; therefore, before passing judgment as to the desirability of a country's participation in world trade one must carefully examine what the exported and imported values represent. When a country exchanges its lumber, its wheat, its cotton, its iron ore and its copper for poor tobacco, injurious beverages and cheap trinkets, its foreign commerce is not as great an economic and social asset as it would be if the country were importing machinery, seeds and fertilizers, locomotives and rolling stock, nourishing foods, or other commodities contributing to the health, comfort and development of its people.

Generally speaking, foreign trade is undesirable when it leads to exhaustion of a country's resources for the purpose of supplying consumers with goods whose chief value lies in their power to satisfy temporary demands for creations of style and fashion, for useless and at times harmful novelties and specialties. Such trade may bring a certain appearance of prosperity but its ultimate effect is the impoverishment of the people, and their physical and spiritual degradation. "We may trade and be busy, and grow poor by it, unless we regulate our expenses," said Locke over

two hundred and twenty-five years ago; and, while the line of argument which brought him to this conclusion may be fallacious (he compares a country with a farm), the statement itself contains much truth and merits careful consideration. (W. J. Locke, Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money, 2d ed., 1696, p. 26.)

Origin and Development of World Trade.—Men learned comparatively early in their development that as consumers they could be best satisfied by diversifying their consumption and by drawing upon foreign lands for articles of food, clothing, amusement and ornamentation. Because of this there arose the trade between different parts of the world. Such trade has been carried on since the earliest recorded history of man. The world traded when armed caravans were winding their way from the countries of primitive flock keepers and agriculturists to the lands of oriental splendor, of ivory, spices and pearls. It traded when Phoenicians were manipulating their small sailing craft, reaching out from the eastern shores of the Mediterranean Sea to the British Isles. It traded in the Middle Ages when feudalism reigned supreme, when cities were surrounded by walls, when highways were infested by brigands and pirates and when numerous heavy tolls were levied upon the merchandising community.

In the past owing to poor transportation facilities and to hazards attached to trading, only rare and therefore expensive commodities could be made objects of exchange; the articles moved were costly woods, precious stones, silks, spices, ivory and similar wares.

Improvements in the means of communication and transportation and greater security of roads have made possible long-distance movements of any kind of goods; they have transformed the modern world into one immense market. No articles are barred now from foreign merchandising because of weight, bulk, cheapness or perishability. Wares shipped from land to land include the raw products

of mines, fields and forests as well as the most refined and elaborate finished commodities; they reach the overcrowded tenements of the poor and the mansions of the rich; they feed spindles and blast furnaces and bring sustenance and often cheer to lumbermen, miners, farmers and factory laborers; wares from foreign lands have become indispensable in the daily diet of the people as well as in the operation of many of their industries.

World Economy and National Interdependence.—One of the main difficulties besetting the world to-day is due to the fact that, economically, humanity has outgrown the limited confines of political units into which it is divided. For most of the modern states, if not for all, absolute national economic self-sufficiency and independence are utter impossibilities. In their search for this phantom, nations have clashed many times in the past and are likely to clash again in the future unless the governing classes see clearly and acknowledge the fact that economically thousands of visible and invisible ties bind the citizens of one country to those of another. The economic interdependence of nations is a living reality, which demands recognition and which can not be legislated out of existence. Its denial leads to bitter antagonisms, to temporary oppression of the weak by the strong and to bloody conflicts.

Steam and electricity have united the farthest regions of the earth; they have placed the wheat fields of Canada and the United States, the cattle ranges of Argentina, the sheep pastures of Australia and New Zealand alongside the flour mills and the textile factories of Great Britain, France, and Italy. The inventive genius of men has broken down the natural barriers which hindered the exchange of goods at the time when pack and draft animals and sailing vessels were the chief means of transportation. Heavy and bulky commodities are being moved to-day over vast stretches of land and sea with greater ease and smaller cost than light and compact articles were moved in former times.

With their resources in some instances not sufficiently

large and in others not diversified enough to meet the demands of their rapidly growing populations, with their industries producing many commodities in excess of the consuming capacity or the purchasing power of their people, modern states have been drawn into the vortex of world economy.

The industrial and commercial nations have been creating outlets for their manufactured products just as they have been establishing a control over the sources of supply of the world's essential raw materials and foodstuffs. In this search for markets an elemental truth has been often overlooked, namely, that the peaceful development and prosperity of communities can not be based upon trade animosities, upon ruthless exploitation, and upon measures tending to suppress efficiency of service; this development must be rooted in a friendly cooperation between all those whose business it is to insure the flow of commodities from producers to consumers. It matters little whether these producers, intermediaries and consumers live in close proximity to each other or whether they are separated by thousands of miles, whether or not they speak the same language, worship their God in the same way, acknowledge their allegiance to the same government. There should be no East and no West when two tradesmen meet; unless they meet in a spirit of mutual helpfulness, in a desire to give as well as to take, foreign trade is not a civilizing influence, not an activity which widens the horizon of the people and makes the whole world kin, but a creator of conflicts, a precursor of wars.

Commercial Wars.—Nations have often resorted to the waging of wars in order to promote their commercial aims. Beginning with the formation of modern states, commercial wars were carried on in the seventeenth, eighteenth and nineteenth centuries until they culminated in the Great War of 1914-1918. There has been no time in the history of the world when armies and navies have not played an important rôle as agencies through which national com-

mercial policies have been expressing themselves. The years of peace have been years of armed peace, and when there was no actual fighting done in order to settle a commercial dispute or to gain a concession there was always present the threat and the fear of possible war. The silent guns of one nation have often deterred another nation from taking action which it otherwise rightly or wrongly would have taken in order to realize its commercial ambitions.

We now know that in domestic exchange competition does not mean enmity, and that only those business successes are lasting and are worth while which are based upon cooperation and upon service. We must realize that what holds true of domestic exchange holds true also of foreign exchange. Those who thought that an increase in international contact, a mere multiplication of international transactions would insure world peace overlooked the fact that even within the confines of a single nation where the circulation of capital, labor, and commodities is at its highest, strife occurs and would occur more often but for the presence of police and the fear of courts; they overlooked the fact that even in family life where the ties are the closest and the interdependence the greatest, there is no peace unless there is forbearance and love.

Dangers of Nationalizing Commerce.—The Great War has left many legacies. One of the most unfortunate of these, one fraught with the most dangerous consequences for the future, is the tendency towards adopting the prewar methods of Germany in dealing with the problems of international commerce. It is highly desirable to use state organizations for the purpose of supplying private business with information and advice; but when the machinery of the government begins to be employed in order to help individuals toward acquiring a control over foreign markets, when foreign commerce begins to be carried on not as a private business enterprise but as a politico-national undertaking, then the door is being opened wide to an ever-growing number of preferential agreements, discriminations and

retaliations and to the ultimate use of arms to gain those ends which can not otherwise be achieved. Commerce ceases to be a normal form of exchange; it begins to be invested with the attributes of a " struggle for existence " amongst nations. Such a view of commerce is not new; mercantilism was based on it, and high protectionism takes from it some of its most cherished arguments; what is comparatively new is the use of an ever-increasing amount of governmental agencies to promote directly what may be termed " private commercial expansion." True world democracy and international good will are not compatible with the conception of foreign trade as a war which, like all other wars, brings with it conquests and defeats and which requires for its successful prosecution the marshaling of all the forces of the state and their direction by a common will. Such a conception of commerce has led to proposals to use economic boycotts as a measure for coercing one country to live up to the expectation of other countries; it creates incentives to form political alliances and to maintain powerful armies and navies so as to be able to meet successfully national commercial antagonists on the field of battle when the final test of strength comes.

If it were possible to banish the erroneous and pernicious doctrine that in foreign trade one country's gain is another country's loss, if it were possible to infuse into the minds and hearts of the people the ideas expressed by Sir Dudley North as far back as 1691 in his " Discourse of Trade," i.e., " That the whole world as to trade is but one nation or people, and therein nations are as persons," and that " no people ever yet grew rich by policies, but it is peace, industry, and freedom that brings trade and wealth and nothing else," what a beneficent forward step would be made in our international relations, what a burden would be lifted from the shoulders of struggling humanity!

Importance of Foreign Trade.—The degree of importance which foreign trade plays in the economic life of a people is determined by the following factors:

a. The size of the country and the density of its population.
b. The geographic location of the country.
c. The volume and character of the country's natural resources.
d. The degree of the economic development of the country and the standard of living of its people.

Industrially advanced nations possessing comparatively small areas and dense populations must rely upon imports of raw materials and foodstuffs and upon exports of finished commodities in order to be able to subsist with a fair degree of comfort on the territories which they occupy. The nations of Northwestern and Central Europe belong to this group. For them foreign trade is not merely a means for disposing of a few surplus products and for exchanging some less desirable domestic commodities for more desirable foreign wares; for them foreign trade is a vital necessity, an activity to which they are driven by the limitations of their habitat. With populations pressing upon their land, they must carry on manufacturing pursuits in order to create values which would enable them to obtain from abroad many essential commodities lacking in their own country.

It is argued by many, and correctly so, that export trade is desirable because the demand of the combined markets of the world is greater than the demand of the markets of a single country. Foreign demand, because of its world-wide distribution, is also less likely than domestic demand to be affected at one and the same time by the same adverse conditions, such as failure of crops, strikes, etc.; a greater continuity of demand may thus be secured through a judicious exploitation of foreign commercial opportunities. This continuity insures a more complete and a more steady utilization of a country's industrial equipment and laboring forces. Surplus production may be disposed of, thus preventing the pressure of unsold goods upon the domestic market. Unless foreign outlets are found, a curtailment of

production is bound to come, with all the evils which are brought about through maladjustment between supply and demand and the necessity for shifting capital and labor from one line of work to another.

Direct versus Indirect Trade.—Direct imports eliminate the cost of transportation to a distributing center and the cost of handling merchandise at that place; they also usually eliminate profit-taking by foreign intermediaries. However, the latter is not always the case. The mere fact that goods are shipped directly does not indicate that foreign distributors have not taken part in the transaction and have not added their profits to the price of the goods.

One of the main advantages which indirect buying, or buying in an entrepôt, confers is the opportunity for comparing goods and for making selections; an entrepôt is a converging point to which a wide range of commodities comes from many lands; goods best adapted for a particular purpose may thus be selected.

Private Interests and Foreign Trade.—It is extremely difficult to draw a strict line of demarcation between public and private interests as they are affected by foreign trade. It is obvious that a nation can not be prosperous unless those who compose it are profitably engaged in various gainful occupations; whatever reacts favorably or adversely upon the life and work of individuals usually reacts in a similar way upon the life of the nation. However, there are certain distinctions between private gains and public benefits which may be drawn and which apply to foreign trade as well as to any other industrial pursuit.

Foreign trade is a merchandising activity carried on by private concerns which receive from society remuneration for their work in the form of profits, salaries or wages. It is this group within the nation which is most directly and vitally affected and benefited by an international exchange of commodities. This group comprises an important part of the population in the exporting and importing centers of the country. It includes freight forwarders, export man-

agers, customs brokers, commission men, wholesalers, bankers, warehousemen, representatives of steamship, railroad, trucking and insurance companies, advertising agents, and a host of major and minor employees whose pay is forthcoming only as long as wares are moving from and into the country; in this group belong also many nationals residing or traveling abroad as managers of branch offices, agents, buyers, salesmen, etc.

Whether all these members of society perform useful economic functions and should be considered as nationally desirable can be answered only after an examination has been made of the character of the goods which they handle, the methods which they use in handling them and the remuneration which they receive for their services. In foreign trade, as in any other gainful occupation, there are men whose gains are derived from performing services that are not real but spurious.

The well-being of those who are directly engaged in the carrying on of foreign trade is of importance to the other classes of the social group to which they belong. Bankers or warehousemen, forwarders or steamship agents, customs brokers or export commission merchants, they are the main users of real estate in the business sections of our leading commercial cities; it is largely under the stimulus of their demand that the crowded thoroughfares of these cities have become lined with tall and often stately structures, that sumptuous hotels, restaurants and theaters have been built in our centers of trade and traffic, that hundreds of industries have been established to turn out producers' and consumers' goods which they need.

Directly concerned with and benefited by foreign trade are also manufacturers who obtain some of their supplies from abroad, producers of raw and finished commodities who find profitable foreign outlets for their goods, and wholesalers and retailers, both at the seaboard terminals and at inland points, who resell the importations.

Those who do not participate directly in foreign trade are

benefited by it through the effect of exportations upon domestic prices; these benefits are not amenable to definite measurements. The great value of foreign markets was proved most conclusively during the recent collapse of exports of farm products; the result was a drop in prices and an agricultural depression, with all the consequences which such a depression has upon the rest of the country's industrial life.

World Markets and the United States.—Because of the great losses which were sustained by many American exporters during the drop in prices in 1921 and because of the financial disorganization and the uncertain political and industrial conditions in Europe, suggestions have been made in many quarters that the United States should abandon its policy of foreign trade promotion and concentrate its attention on the better development of domestic markets. The withdrawal of the United States from the markets of the world may be an economic possibility, but such a withdrawal would certainly involve the recasting of the entire industrial and commercial life of the nation, the curtailment of its present production of many commodities and a sharp change in the character of its consumption. Those endowed with imagination may conceive a prosperous, self-contained and self-sustained United States whose people live happily irrespective of what is going on in the rest of the world by drawing upon the resources and the labor facilities of their own land, but even the most unimaginative must admit that the bringing about of self-sufficiency and isolation would mean a period of painful transition. Such readjustment would not be an easy one for a country a large proportion of whose production of cotton, copper, corn, petroleum, and of many manufactured goods is now dependent upon foreign demand and whose citizens are accustomed to the use in their daily consumption of a multitude of commodities from distant lands. Assuming the economic possibility of such readjustment, one must question its rationality, practicality or desirability from the

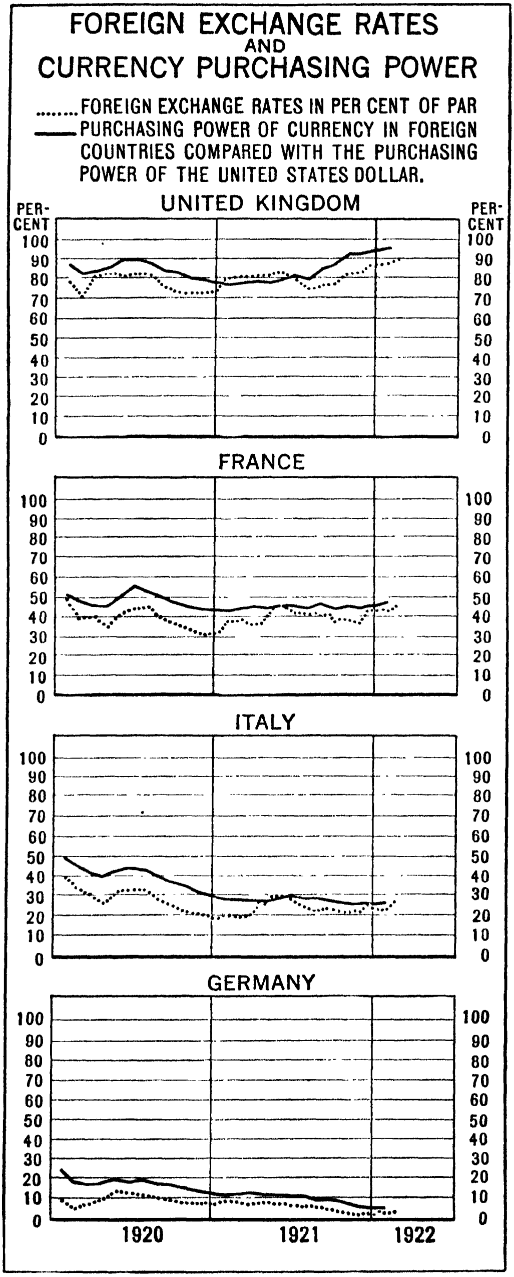
standpoint of national development and progress or from that of international amity and good will.

Depreciated Exchange and Foreign Trade.—Depreciated exchange is supposed by many to stimulate exports from a country whose exchange rates are depreciated, the depreciation giving its exporters an advantage in competition for foreign markets. According to this view, the extent of the advantage varies directly with the degree of depreciation. This view is palpably erroneous; it does not take cognizance of counteracting influences which operate in a country whose currency has become depreciated because of its non-convertibility into a standard metal; it overlooks the shrinkage in the purchasing power of non-convertible currency. Inflation of domestic prices, rise in the money costs of production, are two necessary corollaries of depreciated currency; while the same denominators of value—franc, mark, rouble or lira—are used, in reality a new basis of exchange value has been created which is determined by the degree of the unsoundness of the economic and financial conditions of the country. The depreciated exchange reflects largely the new purchasing power of the old monetary unit and to that extent it has neither a stimulating nor a hindering influence on exports. The depreciation is symptomatic of overexpansion of credit, of unbalanced budgets, of industrial inefficiency, of large imports which can not be met either by an increase in exports, or by the rendering of services and the shipments of precious metals.

Depreciated exchange rates fluctuate much more violently than normal rates, and the fluctuations may and often do carry the exchange below the domestic purchasing power of the involved foreign currency. Then the country's exports are to some degree stimulated and her imports checked. Such a condition is far from being an unmixed blessing for the exporting country; her additional exports are then not the result of a healthy development of her productive and merchandising activities, but of a diseased financial condition. If the depreciated exchange rates do

not right themselves soon so as to come into accord with the domestic value of the country's unconvertible currency, then one may correctly assume that the country has not enough goods to export or not enough markets to export them to in order to take full advantage of the situation and to offset the demand which exists in the country for foreign exchange. This demand is due to the necessity of meeting one's own obligations to foreign producers, manufacturers, investors, and bankers. The greater the spread between the rate of exchange and the domestic value of currency the more costly it is to make foreign payments and the greater are the financial burdens which the country must bear.

The following chart taken from the monthly *Business and Financial Conditions* issued by the Federal Reserve Bank of Philadelphia shows the movements of English, French, Italian, and German exchange rates during 1920, 1921 and the early part of 1922, as compared with the ratio between the commodity purchasing power of each foreign currency unit and that of the dollar. The latter figures were obtained by dividing the monthly index number of the Bureau of Labor by the foreign index number of the same month, thus arriving at the commodity value of the foreign currency as compared with the commodity value of the dollar. The chart shows clearly that the exchange rates tend rather to approach the new "purchasing power parity" than the old gold par of exchange.



From Business and Financial Conditions, Federal Reserve Bank of Philadelphia, March, 1922

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CHAPTER II

ECONOMIC THEORIES REGARDING INTERNATIONAL TRADE

Political Scientists' Attitude toward International Trade.—The concept of merchandising activities which involve shipment of goods in and out of a country as foreign trade, international in character, led the economists to formulate theories regarding this trade which followed closely the line of arguments used by the authorities on international law. For a correct understanding of their theories it is therefore advisable to consider the attitude of these authorities regarding the policies which a state should pursue in its relation with other states. Almost from the beginning, differences of opinion developed among legal writers on this matter. Some stated that each nation has an indusputable right to refuse to trade with other nations and that consequently a state can impose such conditions and restrictions upon its foreign commerce as it deems best for its own interests. Others asserted that the exchange of products between nations is based upon a natural right, that it is a common inheritance of humanity, and that therefore a nation which restricts its commercial intercourse with other nations, a nation which discriminates against some countries and gives preferences to others, undermines the very foundation upon which the peaceful development of humanity and the progress of civilization are based. These two principles are irreconcilable; they have been used time and again by economists and statesmen, the first principle in defense of protection, the second in defense of free trade. Unless qualified to meet economic realities, they are both unworkable

dogmas. A sovereign state may be free to regulate its commerce without considering the needs and requirements of other states, but it can not escape the disastrous consequences which the pursuance of such a policy may bring upon it. If a nation can assume that it has an unqualified right to trade with another nation, then the freedom of exchange may degenerate into license. One country has no right to ship injurious products into another, just as it has no right to drain another country of resources in order to foster its own aggrandizement. Freedom of trade, like freedom in any other manifestation of the economic life of a people, must be scrutinized in the light of the conditions which it creates. When the political and industrial revolution in the second half of the eighteenth century introduced the idea of freedom of man and of contract, many were those who predicted that a millennium had come. The disillusionment was bitterly disappointing. The abuse of power on the part of those who could enforce their will led to ceaseless toil by women and children in mines, in mills, and in factories; it led to the breaking up of family life, to starvation wages. Without idealizing the time of slavery, of serfdom and of medieval guilds, one must admit that the immediate effects of the removal of restrictions on industry and commerce were not an unalloyed blessing to the mass of the people. Unrestricted freedom had to give way to legislative enactments regulating the manifold relations which arose because of the changes in the methods of production and distribution of commodities. Laws and regulations are necessary as long as men are endowed with capacities for evil as well as for good, as long as many of them are actuated not by ethical concepts but by predatory instincts.

Mercantilists.—While customs duties were levied for many centuries before the formation of modern states, their first use as a factor of national commercial policies did not occur until the fall of feudalism and the concentration of power in the hands of what may be termed national authori-

ties. As long as nations were divided into small principalities, each leading an independent existence, as long as Western Europe was a continent of isolated communities, castles and cloisters, manors and burghs, a continent of insecure and often impassable highways separating one industrial center from another, there could be no concerted national effort in dealing with foreign commerce. Taxes and tolls were levied in order to meet the fiscal requirements of those who could enforce them, but nations as such did not exist.

The fall of feudalism and clericalism led to the rise of the power of kings. They established themselves as rulers of centralized political units and in order to maintain their position they surrounded themselves with courtiers, governmental officials and mercenary soldiers. The kings had to pay in specie for the services of their supporters, and precious metals assumed a much greater significance than they had heretofore possessed. How to meet the requirements for gold and silver became one of the most important subjects of economic speculation; it led gradually to the formulation of the first system of economic thought, that of mercantilism.

The most salient point of this system was an overestimation of the economic significance of money. This is not to be wondered at when one considers the conditions of the time when the mercantile doctrine arose and when one reflects that even now, after much economic training, there yet prevails in many minds a great deal of confusion regarding the real significance of money and the relation it bears to the actual wealth of a country. The more thoughtful of the mercantilists never proclaimed the doctrine so often erroneously ascribed to them, that precious metals were the only form of wealth; they taught that gold and silver were the most important and substantial part of the movable wealth of a country, indispensable because of their universal purchasing power.

The overestimation of the value of precious metals and the adoption of measures intended to keep them within a

country can be traced as far back as the fourteenth century. During this century the first and the crudest attempts were made to interfere with the movement of specie. Philip the Handsome in France and Richard the Second in England passed acts prohibiting exports of gold and silver.

It soon became apparent that little could be accomplished by such absolute measures of a negative character. Although heavy fines were imposed on those who exported precious metals, the shipment of gold and silver could not be effectively checked; still less could these measures lead to an increase in the stock of precious metals within a country devoid of gold and silver mines, and none of the more advanced commercial nations of Western Europe possessed such mines. The question which forced itself upon the attention of those who dealt with the phenomena of the movement of specie was, what are the forces which direct the inflow and outflow of money? the answer was found in the condition of a country's foreign trade; money, according to mercantilists, is brought into a country in payment for goods sold to foreigners; it leaves the country when payments are made for articles purchased abroad.

The scheme first adopted to influence the movement of specie was that known as "Balance of Bargains"; it found its fullest expression in England and consisted in a large number of provisions minutely regulating individual contracts between English and foreign traders. To the prohibition to export specie were added various stipulations the purport of which was to compel English merchants trading in foreign towns to bring back to England in cash a fixed proportion of the prices paid them for their goods by aliens. At the same time "Statutes of Employment" required alien traders selling goods in England to employ the money obtained from such sales in the purchase of British produce. Traders were subjected to strict supervision by officers of finance, called customers. This direct interference with the movement of precious metals and with the activities of individual tradesmen was abandoned when

the final stage in the development of the mercantile system was reached. It was then proclaimed that what is important to a nation is not each individual transaction but the sum-total of all transactions; a government need not consider each bargain concluded by its merchants; what was necessary was the shaping of the national policy in such a way as to produce an excess of all exports over all imports. To achieve these results all export duties on fabricated commodities were abolished, and manufacturing industries, especially those supplying foreign markets, began to be fostered by all possible means—by the payment of bounties, by the prohibition or restriction of shipments of raw materials out of the country, by the encouragement of importations of products which could be used in the country's manufacturing activities. Imports of non-essentials were heavily taxed in an effort to prevent their being brought into the land.

In addition to overestimating the significance of precious metals in national economy, the mercantilists overemphasized the importance of foreign trade as a means for obtaining these metals; they overlooked the fact that selling without buying can not go on for very long and that national progress and prosperity are not necessarily bound up with an abundance of specie for which they were striving. The most harmful part of their theory consisted in the thought that the advantages of foreign trade are one-sided and that only those countries benefit from it which can sell more than they buy; this fallacy has been persistently guiding the commercial policies of nations and has been a source of many tariff barriers, reprisals and wars. It has persisted to the present day, the assumption prevailing in many quarters that exports are inherently desirable and that they should be fostered by every possible means, while imports are a necessary evil against which one must guard by high protective duties and by all other measures at the disposal of the state. According to this view, exports are profitable not because they lead to a better

satisfaction of human needs and wants by permitting an exchange of commodities based on an international division of labor, but because they keep industries going and bring money into the country. Foreign trade is viewed not as a merchandising activity, where buying, selling and giving of services complement each other and confer reciprocal advantages, but as a struggle for the conquest of markets.

Physiocrats.—The first opposition against mercantilism arose in France, a country where the system was most rigorously applied. It was in the name of the industry which suffered most from mercantile regulations, in the name of agriculture, that there came the most persistent and determined demand for the abrogation of the system and for the introduction of free trade. The commercial policy of Colbert, which favored the importation of cheap raw materials and foodstuffs and which hindered the exportation of the products of French soil, was causing much distress and discontent amongst the agricultural population of France. The physiocrats, the theoretical exponents of the needs and wishes of this important group in the industrial society of France, accused mercantilists of undermining the real foundation of French prosperity. Land, and not precious metals, according to their view, is the source and the main expression of a country's wealth; agriculture is its only productive industry, agriculture being the only industry which yields new additional commodities, a *net surplus*, while all other industries are dependent upon it and merely process and elaborate the already existing products. Although the physiocrats were dogmatic and based their theory upon what they announced to be a natural law but what in reality is but a superficial and one-sided view of certain obvious facts, nevertheless, they deserve much credit. The mercantilists overemphasized values as embodied in precious metals; in their revolt against this, the physiocrats went to the other extreme; they enthroned the physical output and minimized the significance of the creation of values. The controversy clarified many ideas and paved

the way for a better understanding of the significance of the manifold economic activities manifested in national existence.

Physiocrats demanded the removal of export prohibitions and duties, freedom of movement for agricultural products; such freedom was essential in creating new markets and thus raising agricultural prices. Freedom of trade was also advocated because physiocrats were for freedom in every form, freedom, according to them, being the natural order of things and as such superior to any condition created by means of artificial regulations.

The Classical School of Economics.—Sir William Petty, and later Sir Dudley North, may be considered as the precursors of Adam Smith and his followers. North brought out clearly in his writings the idea that human labor, applied either to the cultivation of the soil or to manufactures, was the source of wealth, and he declared himself most emphatically against the system of prohibitions then in vogue and for a freedom of international economic intercourse.

The classical school of economists, of which Adam Smith was one of the ablest exponents, was on pure economic grounds unreservedly in favor of free trade. Precious metals, according to Adam Smith, are only a small part of national wealth; they can not be used *per se*, their main function being to facilitate the exchange of consumable commodities; it is these commodities and not money which satisfy human needs and wants; the possession of more gold and silver than is needed in order to insure an unhampered circulation of goods is unnecessary and therefore not to be striven for. The fear of an excess of imports over exports or of an "unfavorable" balance of trade has therefore no justification; such a balance can not lead to impoverishment. In this connection, Adam Smith and his followers advanced the theory that an "unfavorable" balance of trade can not characterize foreign merchandising activities of a country for a long period of time; it is bound to produce a scarcity of precious metals and a fall in prices in the country whose imports exceed exports and the reverse condition in

the country whose exports exceed imports, namely, an accumulation of specie beyond the needs of circulation and a rise in prices; a decline in exports must be the result; thus an "unfavorable" balance of trade carries its own corrective.

Adam Smith drew attention to the fact that the balance of trade does not necessarily coincide with the balance of accounts or payments between two countries. However, the charge made against the mercantilists that they overlooked entirely the performance of services, and other so-called invisible exchanges is not correct; such exchanges were not very numerous at the time when they wrote, and if they erred it was not so much in omitting them from their considerations as in minimizing their importance.

The free-trade doctrine of Adam Smith and his followers was partly the result of their deductions from assumed premises, the rationality of the economic man. Every man, according to their view, is motivated by a desire for his economic welfare, and if all men composing a nation are left free to exercise their judgment and to act accordingly, there can be no other result than national prosperity and progress. No one denies, says Adam Smith, the wisdom of the head of a family in buying those goods which he can obtain more cheaply through purchase than by producing them himself. And what is wise for individuals singly is also wise for them in the aggregate, when they form a social group or nation. Division of labor and free exchange of commodities have been found advantageous within the confines of national economy; their advantages are just as pronounced when applied to world economy. When producers in foreign countries can supply certain goods at lower prices than those at which these goods can be sold, if made at home, the best policy is to buy them abroad and to pay for them with those articles for the production of which the purchasing country is relatively better adapted. A free exchange of goods permits the satisfaction of demand with the smallest expenditure of capital and effort; it thus increases industrial efficiency and raises the standard of living.

According to Adam Smith, there is only one condition under which protective measures are justified, and that is when such measures are necessary in order to provide means for national defense, defense being of much more importance than opulence; it was this consideration that made Adam Smith favor the British Navigation Act which was in force in 1776, when he published his "Wealth of Nations."

David Ricardo's important contribution to the theory of foreign trade consists in his exposition of the fact that it is not only the difference in the absolute cost of production but often the difference in the comparative cost which may make the exchange of commodities advantageous to both trading countries. If England, writes Ricardo, can produce cottons with a smaller expenditure of capital and labor than she can produce iron it may be to her advantage to import iron from Sweden in exchange for her cottons, even though the mines of England may yield iron at a relatively smaller cost than the mines of Sweden. The exchange will take place if the cost differential in the production of iron in England and Sweden is not as great as the cost differential in the production of both cottons and iron in England.

National or Historical School of Economics.—The use of customs duties as an aid to newly established industries was advocated before the appearance of the writings of Friedrich List. Their adoption was recommended by James Mill and other classical economists. However, it was Friedrich List who built up around such duties a development theory of protection and who made them an important part of his national system of political economy.

List accused Adam Smith and his followers of being extremely individualistic and humanitarian, of overlooking the fact that between individuals and humanity there stand national units. National well-being and progress must be preeminent in the thoughts of writers and in the actions of statesmen. According to List, nations do not necessarily advance with the progress of the world as a whole, neither does individual striving for welfare necessarily lead to na-

tional growth and prosperity. While admitting that free trade is the best means for increasing the industrial output of the world, List points out that, just as it is possible to augment the total productivity of a country by developing certain sections of it to the detriment of other sections, so also it is possible to raise the productivity of the whole world through an international division of labor while at the same time injuring economically certain national groups.

List advocates protection for those countries which have passed from a purely extractive stage of development to the manufacturing stage, but whose industries are not yet sufficiently developed to permit them to compete successfully with long-established manufactures of older, economically more advanced nations possessing a fund of accumulated capital and a command over skilled labor. Protection to infant industries is necessary; it stimulates their growth and thus awakens the latent forces of the nation.

The main reason for adopting a protective policy is to be found, according to List, in the fact that some countries have reached earlier than others a high degree of economic development. List is therefore against the use of agricultural duties. The ability of the agriculture of one land to compete with that of another is not dependent, as is manufacturing, upon industrial schooling, but upon climate, character of the soil, expanse of territory, and density of population. This places the protected country at a disadvantage as compared with more sparsely populated lands in the production of many agricultural staples. Such a result is, however, not to be regretted; a dense population is desirable both from an economic and from a political standpoint. Unprotected agriculture adapts itself to changed conditions brought about by the rise of industrial and commercial centers; it passes from single cropping to diversified farming, orcharding, truck gardening and dairying.

List believed that ultimately free trade is the best method for regulating world economic relations; he recog-

nized that a cooperating humanity is not a fiction but a form of association to which one must strive and which is bound to come, but he maintained that the " cosmopolitan " political economy of the classical school was not in accord with existing conditions. As long as the world is passing through a stage when national groups are striving to achieve the highest degree of economic development, just so long must protection be used, according to List, as one of the means to insure this end.

Henry Carey.—Henry Carey was in the beginning a free trader; his " Principles of Political Economy," published in 1837, contained such statements as that customs duties violate the right of property. He later became a protectionist, first adopting List's view that protection was necessary as an aid to young industries; then, having evolved a protectionist theory of his own, he became an advocate of absolute, uncompromising protection without distinction of countries, industries, or stages of economic development. Protection, according to him, is desirable because it brings producers and consumers together, secures a coordinated development of agriculture and manufacturing, and thus insures the working of the supreme law of natural harmony; it establishes cordial relations between the various industrial workers of the country.

Carey considers free trade especially harmful when it is applied to a country in an extractive stage of development. Free trade keeps such a country in a condition of comparative poverty and dependence upon foreign markets for the disposal of a large part of its agricultural output. Quantities of heavy, bulky, low-priced, raw products, which pay a high cost of transportation, must be exported in order to import a few expensive manufactured goods. Free trade keeps a country sparsely populated and dooms it to carry on a one-cropping, soil-exhausting system of agriculture. The introduction of protection, according to Carey, brings with it the establishment of industrial centers, the development of internal trade and traffic, the diversification of agriculture.

Modern iron-clad protectionists lack the supreme optimism of Henry Carey; they have learned a few lessons, but they have not learned enough to cause them to modify, to any appreciable degree, the views which they held and which are so strikingly similar to those of Carey.

Definitions of Protection and Free Trade.—Protectionism has been defined as "the totality of those measures by means of which the national economy seeks to promote its interests in the world economy field." (Grunzel, Economic Protectionism, p. 125.) The aim of protectionists is the fostering of domestic production through the restriction of foreign competition, largely by levying duties on imports.

Free trade, as the term is generally used, does not imply a complete freedom in the international exchange of commodities; it does not mean an abolition of custom houses. Duties for revenue purposes can be levied and are consistent with a free-trade policy. And just as in domestic trade, so also in foreign merchandising, free commercial intercourse does not signify a complete removal of governmental regulations. Commerce is regulated and restricted for the purpose of protecting public health and morals, of insuring public safety. Measures of this nature are not removed by the adoption of free trade. Free trade signifies the freedom from those duties and regulations whose purpose is the checking of foreign imports in order to stimulate artificially domestic production.

Arguments for and against Protection and Free Trade.—Most of the arguments which have been advanced in favor of either free trade or protection have been deductive; this has been due largely to the impossiblity of arriving at definite conclusions by the application of statistical or historical methods. It is true that American protectionists have advanced historical arguments; they have frequently pointed to the achievements of the United States in the fields of industry and commerce under a protective tariff; but their arguments have been repeatedly met by free traders' insistence that the United States progressed not because,

but in spite, of the protective tariff; that the country developed under the hampering influence of customs duties because, of the abundance of its natural resources and the ability, enterprise, and energy of its people.

That the historical argument in support of either theory is untenable is apparent when one reflects that Great Britain's rise to the position of the greatest commercial nation of the world was contemporaneous with her adoption of free trade, while Germany's rapid advance to the foremost ranks as Great Britain's competitor was accomplished under a highly protective tariff. Protective tariffs have produced different effects on the industries and trade of France; when France adopted, in 1860, a liberal commercial policy, her foreign trade began to expand, but later when she again inaugurated protection, her shipments to foreign countries declined and French manufactures received a setback.

Great caution should be exercised by those who attempt to show the desirability of passing a certain law or of adopting a certain policy by pointing to the past experiences of their own or of other countries. One should realize in this connection that a measure well adapted to one country or to one period may prove an utter failure when applied in another country or at another period. Conditions of place and time must be evaluated before one can state with any degree of certainty that the experience of, let us say Switzerland, is indicative of what is likely to be the experience of the United States should a similar line of conduct be pursued by the latter nation.

The most important economic arguments which have been invoked in favor of protection and which have been met by counter arguments of free traders are the following:

Young Industries Argument.—It is argued that protection increases the productive power of a nation by aiding in the establishment and maintenance of new industrial enterprises. By protecting young or infant industries a nation creates opportunities for investment of capital and employment of labor. Free traders reply to this that industries

best adapted to a country develop without the stimuli of protective duties, that the effect of such duties is the diverting of the capital and labor of a country from more productive into less productive channels.

It is clear that when protection is used as a means for awakening the latent forces of a nation and for helping newly created industries to meet foreign competition, then the problem to be solved is, "To what particular industries should protection be applied?" Theoretically, the answer is easy; only those pursuits should be fostered which, after they have passed the stage of infancy, would become self-supporting, able to take their place beside similar industries of commercially more advanced countries. From an economic standpoint, assistance granted to other industries is an unnecessary burdening of consumers; it raises prices of commodities made by protected industries and it decreases the national dividend. In practice, it is often exceedingly difficult to ascertain whether an industry nursed by the government would ever become capable of holding its own in competition with similar industries of foreign lands. Protection to young industries has called into existence many manufacturing pursuits which need continuous support. Another difficulty resulting from the use of "development" duties lies in the fact that protection once granted can not be easily withdrawn. Vested interests are created which insist on their right not to be disturbed and endangered by adverse legislation. Protection once granted creates a desire for its continued application.

Home Market Argument.—Protection secures the home market for national industries; the advantages of such a market, according to Henry Clay, one of the earliest advocates of protection on this ground, lie in its greater geographic proximity, stability, and comparative certainty. Domestic markets can not be closed by adverse legislation as foreign markets can; the securing of the home market creates also a reciprocity of interests between producers and consumers and multiplies opportunities for profitable work.

According to free traders, proximity of a place of production to that of consumption is not an economic advantage unless the saving on the cost of transportation is sufficient to offset the difference in the cost of production; this obviously is not the case when import duties must be levied in order to enable the domestic industry to compete. As to the stability of the domestic market, it can not be compared with the security which is acquired through the opportunity to ship one's products to all parts of the world; this opportunity to sell abroad is hampered by legislative measures restricting importations.

Protection and High Wages.—Protectionists assert that protection insures a higher scale of wages and a better standard of living for workmen; if it were not for protection, the necessity to compete with the pauper-labor products of foreign countries would degrade American laborers, would reduce them to the level of the underpaid wage-earners of other lands.

The statement that an industry must be protected because of the high scale of wages prevalent in it needs careful examination; high wages do not necessarily denote high cost of production; as a rule, greater efficiency of labor goes hand in hand with higher returns to labor, wages being largely determined by the productivity of labor. It is true, that in certain products, low-wage countries can compete successfully with countries where the scale of wages is high, but the ability to compete is due, even in such cases, more to the aptitude of the people, to their peculiar skill and talent than to low wages; such is the case in the making of the toys, knit goods, and textile fabrics of Germany, the household utensils and glassware of Czechoslovakia, the silks and ornaments of Japan. If it were true that ability to compete is dependent upon a low scale of wages, one would find great difficulty in accounting for many shipments which take place in international trade. As a rule, countries tend to export not those commodities in the making of which cheap labor has been used, but those in

which labor has been applied most effectively. Efficiency in the application of labor is determined by the abundance and the accessibility of natural resources, by favorable climatic conditions, by the characteristics of the people, their enterprise, perseverance and organizing ability. To these causes have been due the comparatively high wages prevalent in the United States. Our wealth of resources, coupled with the energy and capacities of the people, has led to greater productivity of labor and to higher returns for work. This does not imply that there have been no industries in this country—or that there are none at present—in which our labor is less efficient than that of other parts of the world. In such industries high wages are to a certain degree dependent upon the maintenance of protective duties. However, not all such industries, even though they are protected, pay high wages; the low scale of remuneration prevalent in some necessitates their drawing the labor supply from the ranks of the newly arrived immigrants who because of their helplessness and ignorance of conditions are ready to work on any terms offered to them.

Economic Self-sufficiency Argument.—The desirability of protection as a means for making a country as independent as possible of other countries, of enabling it to rely upon its resources in case of war, has been brought forward most forcibly by modern German economists who favor agricultural protection.

The need of economic independence was emphasized by all belligerent countries during the Great War. A new term was coined—that of " key " or " pivotal " industries; this term included all industries producing commodities essential to the successful prosecution of an armed conflict. The British Committee on Commercial and Industrial Policy after the War, appointed in July, 1916, recommended that such industries be maintained at all hazards and at any expense.

The difficulty in connection with the protection of " key " industries lies in the matter of defining such industries.

The contraband list in force during the latter part of the War seems to indicate that articles considered essential to military use comprise the majority of commodities known to modern commerce. And from the experience of the past, who can foretell what a future war will be like and upon what industries it will make the greatest demand? The British Committee on Commercial and Industrial Policy included the following essential commodities in its list: synthetic dyes, spelter, tungsten, magnetos, optical and chemical glass, hosiery, needles, thorium nitrate, screw gauges, and certain drugs.

Protection and the Cost of Living.—The effect of the protective tariff upon the cost of living in the United States, like its effect upon many other manifestations of our economic existence, has been exaggerated. While protective duties are responsible for the high prices of some commodities, both domestic and foreign, the extent of this responsibility is not an easy matter to determine, and in dealing with the high cost of living in the United States one should realize that many important reasons for this high cost lie entirely outside of the effects of the tariff. The habits of the people, their disregard for savings, their continuous enlargement and diversification of consumption, the restless spirit which makes them such steady patrons of amusement places, of means of locomotion, of hotels and restaurants, are at least as responsible for large family budgets in our country as are customs duties. The phenomenal growth of our industrial and commercial cities, which has been partly stimulated by protection, led to a rapid rise in city real estate and farm land values, which was accompanied by high rents and high cost of foodstuffs and other essentials. The absence of European methods of remuneration by means of titles, medals, and similar devices produced an insistence upon high monetary returns on the part of those who could command such returns; possession of wealth has become the only means of social differentiation, the only basis for social distinction.

Protection as a Compensatory Device.—Those who believe in protection, not as a temporary policy to be applied at a certain stage in the economic development of a country but as a permanent compensatory device for equalizing the difference in the cost of production at home and abroad, contend that domestic production is always preferable to importation, that the latter denotes an economic loss, the support of a foreign industry at the expense of a domestic one.

The opponents of protection, as a permanent policy, argue that the pursuit of such a policy means protection of inefficiency. Manufacturers are protected because they can not produce goods as well or as cheaply as their foreign competitors. Such protection carries with it the danger of preventing the adoption of the most efficient methods of production.

That protection does not necessarily lead to the preservation of antiquated methods, as charged by free traders, has been amply demonstrated by the experiences of the United States and Germany. Like most of the other deductive arguments, it needs many qualifications before its validity can be accepted.

Balance of Trade.—The term balance of trade designates the relation between imports and exports of merchandise. The two may balance, that is, the imports and exports may be equal; but this is seldom the case, the balance of trade being usually either in favor of exports or of imports. The mercantilists considered that an excess of exports over imports constituted a "favorable" balance of trade, favorable because it resulted, according to their view, in the importation of precious metals. The word "favorable," when referring to balance of trade, is yet often used with this connotation attached to it, though the erroneousness of the mercantile conception has been long demonstrated. Neither does the excess of exports over imports necessarily result in the importation of specie, nor is such importation, if it does take place, always desirable. A so-called "unfavorable" balance of trade is no indication that a country is

growing poorer, just as a favorable balance of trade is no sign of a country's enrichment. An excess of exports over imports may be coincident with the depletion of a country's resources, while a reverse phenomenon may go hand in hand with the development of national productive forces, with the growth in well-being and in wealth. One must consider not the balance of trade, but the character of national production and consumption and the balance between these two when one wishes to pass judgment on national economic progress. One must also realize that even from the standpoint of international payments the exchange of commodities, though very important, constitutes only one among the many factors which go to make up the fiscal balances or the balance of accounts between nations.

The balance between a nation's debits and credits is determined, in addition to the balance of trade, by the balance between what have been termed invisible exports and imports; these consist of the following items:

1. Interest on capital loaned to foreigners and profits on enterprises carried on directly in foreign countries. These are usually remitted in the form of commodities, thus increasing the visible imports of a creditor country and the visible exports of a debtor country.
2. Payments for transportation of goods and passengers in so far as these are carried in ships owned by foreigners; the fact that a ship is registered abroad is not a conclusive proof of foreign ownership; domestic capital may be invested in foreign ships just as it may be invested in other foreign enterprises.
3. Payment of premiums to foreign insurance companies, of brokerage and commission charges to intermediaries in merchandising centers; remuneration of foreign bankers financing the shipments.
4. Expenditures of tourists, and remittances by immigrants to relatives and friends in their native countries.

In considering the relation between exports and imports the fact is also often overlooked that exports are entered at the custom houses according to their cost at the time of exportation. As a rule goods shipped abroad are sold there at a profit. If the proceeds of all foreign sales are employed in the purchase of foreign goods an " unfavorable " balance of trade, equaling the profits derived from foreign sales, must be the result. It is clear that such an unfavorable balance of trade does not indicate the impoverishment of a country, but profits derived from its export trade. This fact was pointed out about one hundred years ago by Daniel Webster and by many others since, but it is seldom referred to in our present discussions of the relation between the value of exports and imports and of the causes and effects of this relation.

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CHAPTER III

INTERNATIONAL TRADE STATISTICS

Trade statistics express in figures the facts of commerce. Inasmuch as goods passing national frontiers may be subjected to a more efficient statistical control than those which enter only into the domestic trade of a country, the larger part of trade statitstics deals with the international movement of goods.

Need for Standardization.—There is at present a lack of uniformity in trade statistics used by different countries; this makes satisfactory statistical comparisons extremely difficult. Differences exist regarding the classification of commodities, the methods of arriving at their weight, as well as the basis of valuation used in case of statistics registering the value of goods. The classifications adopted usually follow the classification of goods in the tariff of each country. The recognition of the fact that such classifications are inadequate for the use of business men and of others who seek trade information, which should be more detailed in character and in greater accord with current commercial terms and practices, has led to improvements in those countries where commercial interests were sufficiently well organized to insist upon a change. In Great Britain a conference of statisticians met in 1920 under the auspices of the United Kingdom Board of Trade. This Conference reviewed the entire field of official statistics and laid down uniform principles for all British Dominions. The calling of the Conference was the result of the recommendations of the Dominions Royal Commission which was appointed in 1912 and which spent several years in studying the natural resources and production of the Empire, with special refer-

ence to the possibilities of improving and extending Inter-Imperial trade. While traveling throughout the Empire, the Commission was brought to realize how uncomparable were the official statistics of the several Dominions and how many were the discrepancies and omissions which characterized some special fields which they were investigating.

The Conference proposed the establishment of a Central Statistical Bureau for the British Empire. A series of recommendations on procedure to be adopted in the more important statistical fields were also made. The recommendations with regard to trade statistics covered such items as uniformity in the statistical year and in the mode of valuation of imports and exports; a more careful tracing of the origin of imports and of the ultimate destination of exports; a clearer demarcation of transit and trans-shipment trade; and last, but not least, uniformity in the classification of imports and exports. The Conference recognized that no single scheme of classification could be recommended for adoption in all parts of the Empire, owing to differences in conditions existing in its component parts and to the fact that the items of the trade classification are to some degree determined by tariff requirements. However, the Conference reached the conclusion that in the matter of grouping items, uniformity in principle may be obtained. The Conference proposed that in order to get accurate and comparable aggregations of statistical data, the items be arranged not in one but in several groups.

The classification scheme suggested is based on: (1) the component materials of commodities, (2) their purpose and use, (3) their origin with regard to primary or extractive industries.

American Classification.—A new schedule governing the classification of commodities imported into the United States went into effect in September, 1922. It is based partly on the chief component materials and partly on the purpose and use of the articles. The groupings adopted are as follows:

Animals and animal products, except wool and hair.
Vegetable food products, oil seeds, expressed oils, and beverages.
Other vegetable products, except fibers and wood.
Textiles.
Wood and paper.
Non-metallic minerals.
Ores, metals, and manufactures, except machinery and vehicles.
Machinery and vehicles.
Chemicals.
Miscellaneous.

The above ten groups are divided into subgroups according to the different kinds of materials or kinds of products, and each subgroup is further subdivided according to distinctive lines of industries or degree of manufacture of the articles. Individual commodities are shown under the headings in the last-named subdivision.

The new classification lists 1250 classes, as compared with 710 classes listed in the classification which it superseded. The detailed classes are numbered in accordance with a decimal plan, which will facilitate future expansion or contraction of schedules in accordance with the demands of industry and commerce, without changing established class numbers.

Returns to the Government are required to be stated in commercial units where such are customarily used in trade, or in pounds where no commercial units are in use. This permits the ascertainment of the fluctuations in the volume of trade, which was impossible under former classifications which, for a number of items, showed value only.

Trade Statistics and the League of Nations.—The League of Nations has paid a considerable amount of attention to the matter of coordinating statistical information put out by the various governments of the world. In 1920, the Council of the League set up an International Statistical Commission on which were represented a number of inter-

national statistical institutions. Among the organizations represented were The International Institute of Agriculture, The International Bureau of Commerce Statistics, The International Institute of Commerce, The International Labor Office and The International Institute of Statistics. The purposes for which the Commission was called into being were to advise the Council of the League of Nations with reference to such matters as: (1) the extent to which the work of obtaining, collating, examining and publishing international statistics is already carried on by international bodies, (2) the desirability of instituting a central advisory council on statistics for the purpose of advising the League of Nations concerning the coordination and standardization of statistics, (3) the relationship of the existing internanational statistical institutions to the League of Nations, (4) directions in which international statistics require further development and the manner in which the League of Nations may profitably assist such development. The League of Nations has been issuing, since 1919, a Monthly Bulletin of Statistics. This bulletin may be considered as the continuation of a bulletin which was begun under the auspices of the Supreme Economic Council.

Methods of Ascertaining the Value of Goods.—Various methods for ascertaining the value of goods have been adopted by different countries; some use the method of value declaration, others that of value estimation, and still others employ a combination of both methods. In the first method, the value of goods is taken to be that declared by the exporter or importer at the time the goods pass the frontier; in the second method, the value of goods is, as a rule, determined by a commission of experts—government officials, manufacturers and merchants; a price is fixed from time to time for each commodity exported and imported; this price is based upon the average price of the article during the preceding year. When the method of value declaration is used the value declared may be, in the case of imports, either (1) the market value of goods in the exporting country at

the time of sale, or of shipment, or the market value in the importing country at the time of import, or (2) the shipment (f.o.b.) value, or (3) the arrival (c.i.f.) value. The majority of countries show the value of exports as this value exists at the time when the goods leave the country.

Per Capita Exports and Imports.—Per capita exports and imports show more clearly the degree of importance which foreign trade plays in the economic life of a people than statistics giving total exports and imports. Conclusions as to what a large per capita trade really means for a country can be reached only after a careful investigation of all the factors involved in each particular case. Large per capita exports and imports may denote that a nation is prosperous, that it enjoys all the comforts and luxuries which accrue from a participation in an international exchange of commodities; or it may signify that people live in an unproductive territory and are obliged to give services and to export whatever they are able to wrest from the soil in order to import bare necessities, articles of simple food and clothing, fuel and building materials, sometimes even drinking water, as is the case of Aden, in Southern Arabia.

The per capita exports and imports of some of the more important commercial nations, according to the Statistical Abstract of the United States for 1921, are:

	Imports	Exports		Imports	Exports
Argentina	76.10	119 63	Italy	21.46	10.56
Australia	73.08	101.96	Japan	20.76	17.32
Belgium	125.99	86 22	Mexico	11.50	13.07
Brazil	6.76	15.68	Netherlands	167 91	85.73
Canada	131.88	126 46	Norway	239.98	68.67
Chile	21.65	38 06	Russia	2.37	0.84
China	2.19	1.56	Spain	6.64	11.25
Czechoslovakia	26.25	31.45	Sweden	109.63	68.17
Denmark	156.58	76.80	Switzerland	185.70	143.43
France	84.71	45.65	United Kingdom	149.69	103.36
Germany	28.06	19.82	United States	22.92	40.00
India, British	2.80	4.16			

Statistics of World Trade.—Many writers, when giving the value of international trade, count both exports and imports. It is obvious that this method leads to duplication, the imports and exports of one country usually appearing as exports or imports of a number of other countries. In order to avoid this duplication, the value of either exports or imports, preferably the latter, should be taken as indicating the extent of world commerce. The two values do not coincide, total imports of the world being larger than total exports. The discrepancy is due to the fact that in the value of exported articles are not included carrying and insurance charges, remuneration to merchants and bankers, etc., which usually appear in the value of the articles where they are imported. Thus international merchandising shows an excess of imports over exports or an " unfavorable " balance of trade. No mercantilistic efforts, even if applied by all the countries of the world, would alter this fact. Exports and imports will not balance as long as they are not calculated on a common basis of valuation.

International commerce, counting both exports and imports, has grown since the beginning of the last century from $1,400,000,000 in 1800 to $40,000,000,000 in 1913 and to $118,000,000,000 in 1920; owing to a fall in prices in 1921 it approximated $78,000,000,000. Taken separately, the exports and imports of twenty-five countries of the world, for which official reports were available in April, 1922, showed an increase in imports from $14,589,000,000 in 1913 to $44,205,000,000 in 1920 and to $28,014,000,000 in 1921, and an increase in exports from $13,308,000,000 in 1913 to $35,152,000,000 in 1920 and to $23,565,000,000 in 1921. By countries these exports and imports were divided as follows:

INTERNATIONAL COMMERCE OF PRINCIPAL COUNTRIES, 1913, 1920, 1921

In million dollars; reduced to U. S. currency at par value of the respective currencies in which officially stated

	Total Imports, Million Dollars			Total Exports, Million Dollars		
	1913	1920	1921	1913	1920	1921
Argentina	407	850	612‡	467	995	648‡
Australia	388	719	584	365	676	618
Belgium	975	2,490	1,949	717	1,710	1,380
Brazil†	327	1,142	923	316	957	934
Canada*	670	1,337	799	356	1,303	817
Cuba	132	574	356	165	783	278
Denmark	229	842	434§	171	486	390§
Egypt	138	506	274	157	423	180
Finland	96	699	697	78	562	652
France	1,642	9,631	4,536	1,327	5,192	4,169
India, British	522	1,572	1,354	782	1,420	1,091
Italy	702	3,069	3,724§	483	1,505	1,733§
Japan	363	1,165	787	315	971	612
Netherlands	1,575	1,340	901	1,239	684	551
New Zealand	108	157	328	111	247	235
Norway	148	684	414§	102	523	201§
Philippines	56	149	116	54	151	88
Siam*	28	52	59	30	65	34
Spain	239	271	243	194	198	156
Sweden	227	904	339	219	615	289
Switzerland	371	818	443	266	633	350
Union of South Africa	203	461	255‖	323	396	284‖
United Kingdom	3,208	9,405	5,289	2,556	6,494	3,422
United States	1,793	5,278	2,509	2,450	8,080	4,379
Uruguay	51	90	89§	65	84	74§
Total	14,598	44,205	28,014	13,308	35,152	23,565

* Fiscal year figures.
† Includes gold.
‡ Estimated by U. S. Dept. of Commerce.
§ December estimated.
‖ November and December estimated.

Source: The National City Bank of New York Monthly, April, 1922

Volume and Value of Foreign Trade.—The ascertainment of the physical volume of goods shipped into and out of a country is of great importance. It acts as a check on value statistics, in which the extent of the international movement of commodities is usually measured. During the recent abnormal rise in prices the question of volume versus value received more serious consideration than has usually been accorded to it, and in many quarters an increased amount of attention has been called to the unreliability of value statistics as indicators of the growth or decline in a country's foreign trade.

The practical significance of volume statistics has been questioned by some, but those who raise this question overlook many important economic facts. The growth or the decline in the amount of commodities moved has an important bearing upon the utilization of factory, transportation, and terminal facilities. Volume statistics rather than value statistics indicate the intensity with which equipment and laboring forces are employed in centers of production, at seaboard terminals, and on the high seas.

"Why bother about a decline in the amount of goods sold abroad if, owing to a rise in prices, this decline does not affect adversely the value of shipments?" ask the uninformed. Those, however, who feel the pressure of unsold goods upon the domestic market know better. Many of them recognize that unless remedies are found, a decline in the volume of exports usually leads to a curtailment of production with its consequent shutting down of mines, mills and factories, waste of capital and unemployment of labor. It is an increase in the volume of sales rather than in their value, unless prices are stationary or are declining, which shows an acquisition of new markets or a better cultivation of old ones. In the case of commodities the demand for which is elastic, a fall in prices should be, as a general rule, accompanied by increased purchases. If a country does not export more of such commodities at lower

prices, one may infer that her producers and distributors are losing trade to foreign competitors.

It has been frequently suggested that the Department of Commerce either publish figures for both quantity and value of our exports and imports, or issue statistics of tonnage or other measures of the physical volume of our foreign trade instead of those for value only. The Statistical Division of the Bureau of Foreign and Domestic Commerce, which compiles and publishes the tables of our exports and imports, has not so far seen its way clear to comply with such requests; a step toward this has been taken in the recent adoption of a revised classification in which quantities are stated either in commercial units, where this is applicable, or otherwise, in number or in weight. Previously, values only were given for many articles, even in the detailed statistical tables of the Bureau; thus values only were given for parts of engines, automobiles, agricultural and mining machinery, for many manufactures of iron, steel, copper and brass and for the multitudinous articles that could not be separately enumerated. The fact should not be overlooked that the Government's sources of trade information are export and import declarations filed by the shippers with collectors of customs, and that shippers or their representatives are inclined to object to giving in their export declarations detailed descriptions and quantities not required in bills of lading and other shipping documents. That it is impossible for the Government under present conditions to give the physical volume of the total American foreign trade is apparent, when one reflects that where quantities are designated they appear in different units according to the customs of various trades and industries; thus, wheat, corn and other kinds of grain are given in bushels; boots, shoes and gloves in pairs; gasoline, illuminating oil, cottonseed oil and other oils in gallons; cotton and wool cloths in yards; raw cotton, iron, steel, copper and other goods sold by weight, in pounds or tons; and such commodities as automobiles, tractors, railroad cars, locomotives

in individual units. The addition of such quantities leads nowhere. The Bureau can not act at present on the suggestion to compile weight for all articles, in addition to quantities in commercial units, partly because of the difficulty in obtaining this additional information from the declarations and partly because of the limited personnel and equipment available for tabulating and publishing the statistical reports even on the present scale.

While an accurate statement of the total volume of our commerce can not be compiled, volume statistics have been provided for the great bulk of our exports and imports, which consists of staples and for which weights or quantity units readily converted into weights are available. The calculations necessary to obtain such data have been made during the past few years by the Committee on Economic Research of Harvard University, by Mr. O. P. Austin, Statistician of the National City Bank of New York, by the Foreign Department of the Chamber of Commerce of the United States and by the Statistical Department of the Federal Reserve Board. The results of these calculations show conclusively that the rise in prices was one of the important factors in the increased value of our exports during the War as well as during the first two years after the signing of the Armistice; they also show that the decrease in the value of the 1921 trade, as compared with the years immediately preceding it, may be attributed largely to a rapid fall in prices.

Harvard University Committee's tabulations, first published in the *Review of Economic Statistics*, for October, 1919, were based on one hundred selected classes of commodities, exported in 1915 to 1919; these commodities comprise about two-thirds of the total value of domestic exports. Harvard calculations were supplemented by similar calculations for 1920 and 1921, compiled by the Bureau of Foreign and Domestic Commerce. They indicate the following percentages of increase in quantities for the fiscal years shown as compared with pre-war exports.

	Per Cent Increase in Quantity	Per Cent Increase in Value		Per Cent Increase in Quantity	Per Cent Increase in Value
1915	17	17	1919	31	206
1916	27	83	1920	32	243
1917	39	166	1921	63	176
1918	15	150			

In order to show the effect of price inflation on the value of exports and imports, the writer, in an article on "The Past Decade of the Foreign Commerce of the United States" (*American Economic Review*, June, 1920) adopted the plan of dividing the total value of the commodity exported or imported in 1910 by the amount of its exports or imports in that year. The resultant number was taken as the basic unit value, and the amount of each article exported or imported during the succeeding years was multiplied by this number. For exports, twenty-five commodities were selected, which in 1910 represented about 55 per cent of total exports. At 1910 prices, the export value of these commodities would have increased from $985,153,000 in 1910 to $1,400,181,000 in 1919, instead of to $3,256,684,000, the official figure for 1919. This indicated a 132 per cent rise in export prices. Assuming that this rise was representative of the rise in all export prices, the writer arrived at a total value of 1919 exports at 1910 prices, as equal to $3,103,975,000 instead of $7,225,084,000. This gave approximately the same increase (about 32 per cent) as shown in the preceding table of the Bureau of Foreign and Domestic Commerce.

Mr. O. P. Austin in the October, 1920, issue of *The Americas* compares the quantity and value of exports and imports for 1914, the fiscal year just preceding the War, with 1920, the first year of peace. By using those commodities for which both weight and value are stated in governmental returns, he arrives at the following results: While the

weight of our imports increased from 34,992,000,000 pounds in 1914 to 57,978,000,000 pounds in 1920 or 65.6 per cent, the value of these imports rose from $1,163,000,000 to $3,999,000,000 or 243.9 per cent; the weight of exports rose from 110,409,000,000 in 1914 to 148,693,000,000 in 1920 or 34.6 per cent; the value rise was from $1,667,000,000 to $5,474,000,000 or 225 per cent. If one applies the 1914 prices to 1920 quantities, one obtains, as the value of imports in 1920, $1,977,000,000 and the value of exports, $2,308,000,000. Assuming that a similar relation of 1920 prices per unit of quantity occurred in those articles in which weights are not shown, Mr. Austin arrives at the conclusion that the total domestic exports of 1920, the value of which was $7,950,000,000, would, if stated in 1914 prices, have amounted to only about $3,340,000,000 and the total imports would have amounted at the same valuation to $2,600,000,000 instead of $5,239,000,000.

Ratio between Foreign and Domestic Trade.—Facts which are available do not warrant any definite statement regarding the relative importance of our domestic and foreign trade. Estimates made so far are largely guesses, because exact data showing the value and volume of our domestic exchange of commodities do not exist. Such data must first be gathered and carefully scrutinized so as to bring them into accord with the statistics of our exports and imports before any real comparison between foreign and domestic business can be made. In addition to the lack of accurate information, it is this failure to bring into agreement the two sets of figures which has prevented in the past the gaining of a clear insight into the comparative value of foreign and domestic commerce. A number of comparisons which have been made give a totally erroneous idea regarding this matter, because those who made the comparisons considered, on the one hand, the sum total of all merchandising activities within the country, and on the other, a single movement, that of commodities out of the country. Persons making comparisons on this basis consider, in the

first instance, the many changes which take place in the ownership of goods from the time these goods, as raw materials, leave their original producers until, as fabricated commodities, they reach final consumers; in their estimates are included not only transactions involved in the marketing of domestic wares as they pass through the different channels of distribution, but also operations which take place in connection with the bringing of imported goods into the possession of their ultimate users, and the many internal exchanges which often precede the final sale of merchandise to foreign customers. In the second set of figures, that of exports, there are no duplications; these figures represent the value of commodities as they are cleared through the custom houses on their way to foreign markets.

A discussion which threw much light on the subject occurred in the early part of 1916, when the *Annalist*, in order to show the relative value of foreign and domestic trade, published in its issue of January 17 an estimate of all business transactions in the United States, placing the total for 1915 at $507,000,000,000. This estimate was based on Professor Irving B. Fisher's conclusions and it was criticized by Mr. B. M. Anderson, Jr., as being too high. The estimate was upheld by Mr. Fisher as measuring the amount of money and credit which was required in 1915 to finance business transactions. However, it is not this amount of money, as Professor Fisher himself admitted, but the value of commodities produced and used within the country, which should be considered when one desires to arrive at conclusions as to what foreign commerce represents statistically compared with domestic commerce.

The Division of Statistics of the Bureau of Foreign and Domestic Commerce has been working for many years along these lines. An estimate based on counting commodities as they pass through the various stages of production, and not on mere transfers of ownership, was originated about 1907 by Mr. O. P. Austin. This estimate has been amended from time to time by him and by the present head of the

statistical division, Mr. J. Hohn; so far it has not been included in official statistics. The estimate considers, as correctly as the available data permit, the wholesale value of commodities without making deduction for those goods which enter into the production of other goods.

The following table, for the possession of which the writer is indebted to Mr. J. Hohn, gives the estimates for 1915 and 1920.

RELATION OF EXPORTS TO PRODUCTION

	1915	1920
Manufactures produced (Based on Census Reports)	$27,500,000,000	$62,000,000,000
Agricultural products (Estimated by Department of Agriculture)	10,500,000,000	19,856,000,000
Mining products, minerals, etc. (Geological Survey reports)	2,400,000,000	6,707,000,000
Fisheries, furs, and miscellaneous industries not included in above (Estimate of Bureau of Foreign and Domestic Commerce)	500,000,000	2,000,000,000
Foreign value of imported goods	1,780,000,000	5,278,000,000
Freight and other charges, import duties, etc., on above	320,000,000	659,000,000
Value added to foregoing groups by transportation (Freight earnings of leading railways, Interstate Commerce Commission)	2,000,000,000	3,500,000,000
Total internal trade	$45,000,000,000	$100,000,000,000
Value of foreign commerce:		
Imports	$1,780,000,000	$5,278,000,000
Exports	3,555,000,000	8,228,000,000
Total	$5,335,000,000	$13,506,000,000
Relation of exports to internal trade	7.9%	8.23%

Professor Frank Rutter, while Assistant Director of the Bureau of Foreign and Domestic Commerce, made an esti-

mate of the internal trade of the United States for the year ending June 30, 1916; this estimate placed the commerce for that year at $49,400,000,000. By deducting from this figure duplications such as the value of that part of the crop which is fed to livestock and the value of materials which are used in manufactures, Professor Rutter arrived at a figure of $28,700,000,000 as representing the imports and the total wealth created in 1916 within the country. Different interpretations of the term " domestic trade " thus caused the estimates of the internal trade of the United States to vary in value from about 28 billions to over 500 billions of dollars; the ratio of exports to domestic business ranges accordingly from less than 1 per cent to over 20 per cent. The proportion which is most generally accepted by bank economists and statisticians is about 10 per cent, and this seems to be as accurate a figure as it is possible to obtain at the present time. The lack of any scientifically reliable data is reflected in such widely divergent statements as that of former President Wilson, who in an address at Cincinnati in 1916 said that " the foreign commerce, even upon the most modest reckoning of our domestic commerce, does not equal 4 per cent of the total," and that of Mr. Julius Klein, the Director of the Bureau of Foreign and Domestic Commerce, who went so far as to place it in one instance as high as 20 per cent of our domestic business.

For many commodities the ratio of exports to domestic production is much greater than the figures for the total trade indicate. The Foreign Department of the Chamber of Commerce of the United States in the pamphlet " Our World Trade in 1921 " gives a comparative table of production and of exports of a number of important commodities. This table is very illuminating. Production statistics are for 1919, exports for the fiscal year ending June 30, 1920; according to this table, we exported 59.3 per cent of motor cycles, 58.2 per cent of rosin, 58.1 per cent of raw cotton, 53.8 per cent of copper, 53.5 per cent of rice, 44.5 per cent of leaf tobacco, 41 per cent of lubricating oils, 39.7 per cent

of illuminating oil, 32 per cent of condensed and evaporated milk, 26.4 per cent of steel rails, 23.5 per cent of wheat. Many other articles are included in the table but the foregoing is sufficient to show our great dependence upon foreign markets in many lines of the country's industrial activities.

One should recognize also that in the discussions of the significance of foreign trade in national economy too much emphasis has often been laid on the numerical proportion which this trade bears to the total amount of a country's business. The emphasizing of ratios, whatever these may be, overlooks the extremely intricate character of modern industrial and commercial life; it disregards the way in which domestic and foreign merchandising activities are interwoven in the production and distribution of commodities.

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CHAPTER IV

FOREIGN INVESTMENTS AND WORLD TRADE

Extent of Foreign Investments.—It is extremely difficult to obtain figures showing the exact amount of capital invested by the citizens of different countries in foreign securities, and in direct ownership and control of foreign industrial plants and other enterprises. According to the Federal Trade Commission, which accepted very largely the conclusions of Sir George Paish, British investments outside of Great Britain at the outbreak of the Great War amounted to between $17,500,000,000 and $20,000,000,000. While the greater part of this sum was invested in railroads, telegraphs, canals, municipal improvements and port works, considerable British capital was used for the development of mines, oil wells, plantations and for the building up of manufacturing industries.

French holdings in foreign stocks and bonds have been estimated at $8,000,000,000; by adding to these the French investments not represented by such securities, one arrives at an amount of about $9,000,000,000; of this sum $1,700,000,000 represents French holdings in Russia.

German pre-war investments abroad differed from those of France and Great Britain by being somewhat more speculative in character. In amount approximating the investments of France, they were more widely distributed than the latter; they were often placed in out-of-the-way localities; the dominant motive of German investments was the cementing of commercial relations and the spreading of German influence in matters industrial, financial, and political.

There can be little doubt that investments have greatly stimulated the export trade of Great Britain, France, Germany, and some of the other European nations. There is more truth in the statement that "trade follows the loan," than in the one which it has largely superseded, i.e., "trade follows the flag." The desirability of foreign investments as a means for promoting trade relations was recognized in the United States before the outbreak of the Great War and some effort was made in the years immediately preceding it to attract the American public toward buying foreign securities. However, comparatively little progress was made. Before the War, the United States was essentially a debtor nation, owing more than $6,500,000,000 to British, French, German and Dutch capitalists. Against these we had about $2,000,000,000 represented by our holdings abroad. The War radically changed this situation. The reasons for the lack of interest which has been displayed by American investors in foreign securities are obvious. Opportunities for profitably using capital at home have been so great that there has been little incentive to seek outlets abroad. In our country, stretching three thousand miles from the Atlantic to the Pacific seaboard and for about two thousand miles from the Canadian frontier to the Gulf of Mexico, there are as yet vast, natural resources waiting for development, large tracts of land needing drainage, irrigation, or the application of electrical power in order to become highly productive areas; our railways are calling for improvements and extension and there are thousands of enterprises of every character which, given funds and organizing skill, would yield abundant returns. Conditions were entirely different before the War in the overcapitalized and overpopulated countries of Northwestern and Central Europe; there the law of diminishing returns had been reached in many lines of endeavor and idle capital and idle hands were seeking employment in the lands across the seas.

In the United States there is the alternative of using

accumulated funds with profit both to individuals and to the nation either at home or abroad, and each exportation of capital should be weighed in the light of this alternative. There is no economic objection to employing a part of American surplus capital in foreign lands; judicious foreign loans may and often do confer greater benefits than the fostering of certain kinds of domestic ventures.

Effect of Foreign Investments.—The loaning of capital usually brings with it exportation into the debtor country of capital goods to be used in the establishment and operation of enterprises for which the funds have been loaned; the commodities shipped include locomotives, rolling stock, rails, agricultural and mining machinery, and similar producers' goods. However, lending should not be made contingent upon the borrower's purchasing all the equipment and supplies from the country which loans the funds. Such a policy is neither fair nor wise, and while it may yield temporary advantages, is not conducive to the creation of good will. If left to exercise their own judgment, the borrowers are naturally inclined to deal with the nationals of those countries whose capital assists them in their undertakings; making such dealings obligatory usually leads to resentment.

Up to the present there has been ordinarily an understanding, either tacit or formal, which permitted banking syndicates instrumental in making loans to direct the purchases of the debtors. The control of purchasing operations was often achieved through the acquisition of controlling stock in the foreign corporation which borrowed the funds. Great Britain has used this method for gaining access into many foreign markets and for acquiring a control over these markets; Germany also has done so to some extent.

Investments in foreign securities usually have a stimulating effect upon the trade between the lending and the borrowing country during the period when the transfer of securities takes place, irrespective of the fact whether the loan is or is not conditioned upon the purchase of commod-

ities in the lending country. Trade is stimulated through an advance in the rate of exchange of the borrowing country; this advanced exchange facilitates buying in the lending country.

The final effect of foreign investments is a stimulation of imports into the country which has made the loans; interest on the investments is paid largely in goods and goods are also commonly used for liquidating the debts when they become due.

Foreign investments have as their corollary increase in the volume of international trade, the borrowed capital being as a rule used in developing the debtor country's natural resources. With the introduction of modern implements and machinery, with the improvement in the means of transportation, comes the production of surpluses over what is merely sufficient to support life; an increased output of the products of agriculture, lumbering, mining and manufacturing means growth of the purchasing power, possibility to export and to import. While the increased output may at first be just sufficient to pay interest and to yield profits to the lenders of capital, such a condition does not last long. The output soon grows beyond this amount and the nationals of the debtor country become desirable buyers and sellers in the world's markets.

The Attitude of the United States Government.—One of the forms of foreign investments is a direct purchase of some tangible foreign property, such as mines, land, buildings. Many of the earlier American investments abroad were in copper mines, oil lands as well as in branch factories. Factories were established by some of our larger concerns making sewing machines, electrical appliances, and agricultural implements, such as the International Harvester Company, Singer Manufacturing Company, and others.

Those who acquire foreign property and who transplant industries should understand that all enterprises outside of one's own country are amenable to the laws of the country in which the property is located and the undertaking is

carried on; they must also realize that they often subject themselves to risks which are greater than those they are likely to encounter at home; these risks they assume in order to make profits and it is not fair for them to expect that their fellow nationals who do not share in the profits should share in the risks. This statement should not be construed as meaning that no protection must be assured to nationals who expatriate themselves or their capital; many such expatriations confer benefits not only upon individuals who undertake foreign operations but also upon the country which they represent, and for that reason, if for no other, their work should be encouraged. It has been justly pointed out by some that one of the contributory causes for the scarcity of American investments in foreign countries before the War was the attitude of indifference which our State Department maintained towards protecting American ventures abroad. This attitude was at great variance with that of the leading commercial nations of Europe, whose governments always stood ready to defend the legitimate interests of their nationals wherever and whenever the occasion demanded it.

Americans, knowing how little assistance they were likely to obtain in case of need from the State Department, were reluctant to acquire any interest in the enterprises of those countries where backward political and economic conditions made for uncertainty, for disregard of obligations entered into with foreigners, and for the native government's inability or unwillingness to do equal justice to all. Our citizens when in trouble were usually left to extricate themselves as best they could, while European governments in similar cases were insisting upon reimbursements and reparations. This made the life and property of Europeans in backward countries more secure than the life and property of Americans; the mailed fist which was back of the Europeans made their rights more respected than were the rights of the Americans and gave to Europeans a great advantage over the latter. With an increase in the

number of American investments abroad, it became necessary for our Government to define clearly its attitude toward protecting loans and enterprises of American citizens in foreign countries. During the past few years the Department of State has repeatedly declared that our Government stands ready to aid, by means of prompt diplomatic representation and by any other steps within its power, the execution of equitable contracts made in good faith by its citizens in foreign lands, but it will not go so far as to interfere in the political or financial affairs of the country in which the contracts have been made nor will it resort to any acts which may undermine the sovereignty and independence of that country.

Most American investors have been viewing foreign securities, irrespective of the merits of these securities, with suspicion. The unsettled conditions brought about by the Great War have not helped to diminish the distrust which the average American has of foreign investments. This distrust explains the comparatively high rate of interest which such securities must bear in order to make them salable in this country. The higher rate of interest, as compared with that yielded by domestic securities of equal worth, is due not to a desire to exploit foreigners but to the newness of foreign financing in the United States and to the unfamiliarity of most of our investors with foreign securities.

Nature of Foreign Loans Floated in the United States.—Inspection of the nature of foreign loans floated in the United States shows that the majority of them consist of government and municipal issues. Our people have been thus far reluctant to invest in foreign securities based upon private productive and distributive enterprises. However, this type of foreign security, provided it is carefully examined and approved by reliable bankers floating the loans, is no less safe than that based on the obligations of governments. Such investments have been made by the bankers of England and of Continental Europe all over the world and the results of such investments have been highly satis-

factory both from the standpoint of returns on them and of the direct stimulation of export business which they gave. Irrespective of the direct effect of the loan, investigations which must precede investments of this nature often disclose trading opportunities and thus lead to the establishment of commercial relations. Such investments also create more intimate relations and bring about greater confidence between the peoples of the lending and the borrowing country, which in itself is conducive to the formation of larger business transactions.

The Ter Meulen Plan for International Credits.—The object of the Ter Meulen plan is to provide, through governmentally secured bonds, an instrument which would inspire confidence in exporters and would enable importers in war-stricken countries to obtain essential commodities on reasonable terms. An International Commission constituted under the auspices of the League of Nations is to be entrusted with the task of carefully examining the proposed bonds and of assigning a gold value to the assets which the governments of the countries accepting the Ter Meulen plan would be willing to pledge as security for commercial credits to be granted to their importers. The bonds are to be issued payable to bearer, maturing in five, ten or fifteen years and yielding a stipulated rate of interest. The securities back of these bonds must be of such nature as to give a regular and frequently recurring revenue, such as customs duties, state monopolies, etc. These assets are to be managed by the country issuing the bonds, or, if the Council of the League of Nations so decrees, by the International Commission. The bonds will be placed at the disposal of only such importers as may be able to satisfy the bond-issuing government as to their responsibility and business standing; they will have to be used for importing only such goods as are likely to promote the general welfare and the economic life of the importing nation.

In case of default on the part of the importer, the exporter is allowed the alternative of either holding the bonds as an

investment until their maturity or of selling them at any time he wishes to do so, provided that before he offers the bonds for sale a reasonable opportunity be given to the government which issued the bonds to repurchase them by paying the exporter the amount of his claim. Defaults, according to the advocates of the Ter Meulen plan, are likely to take place exceedingly seldom as the borrowing government will be very discriminating in the selection of importers to whom they entrust the bonds.

Upon the fulfillment by the importer of the terms of the contract of sale, the exporter will release the bonds and return them to the importer, the latter in his turn giving them back to the government.

The bonds returned to or repurchased by the participating government shall be forthwith canceled in accordance with the regulations of the International Commission; they may be replaced, on the Commission's approval, by other bonds, conforming to the conditions governing the original issue of bonds.

It is doubtful whether large credits will be extended by private concerns under the security of the Ter Meulen bonds even though approved by an international commission, as long as the countries pledging these bonds do not curtail their expenses or do not increase their taxation so as to be able to meet the demands of their treasuries without resorting to continuous issues of paper currencies. The Ter Meulen plan does not go to the root of the evil; it is an attempt to provide a credit mechanism for countries which, though impoverished by the war, have not learned war's lessons; many of these countries are yet animated by national militaristic ambitions; their governments, instead of promoting the economic life of the people, are keeping up armies on a war footing and are fighting or preparing for conflicts. Confidence can not be restored by the use of documents. Furthermore, it does not seem that the machinery which it is proposed to set up is suitable for the furthering of short-

term mercantile credits, tied up as it will be with the use of long-term bonds.

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CHAPTER V

FOREIGN TRADE RESTRICTIONS AND PROHIBITIONS

The term prohibition has been used very loosely not only by the general public but by many writers on the subject and by many of those who have been administering the customs laws. A distinction should be drawn between absolute prohibitions, the number of which is at present small, and a much larger class of so-called contingent prohibitions, which are not prohibitions in the strict sense of this word, but are restrictions placed on imports or exports, both being allowed upon the fulfillment of certain requirements. It is true that the requirements are at times so stringent as to make the restriction tantamount to an absolute prohibition, but such is not often the case.

History.—The first prohibitive measures enacted in connection with the regulation of foreign trade may be traced back to the early part of the thirteenth century. In 1211 a law was promulgated in Padua which forbade the importation of woolen goods under the penalty of their being seized and burned. In the fifteenth century Venice and England began to resort to prohibitions, the latter forbidding in 1455 the importation of silks.

A more determined and consistent application of the prohibitive system commenced in the middle of the seventeenth century when the doctrines of the mercantile school were influencing the actions of statesmen. Prohibitions of imports in order to foster national industries, prohibitions of exports for the purpose of keeping in the land foodstuffs and raw materials, became one of the prominent features of a country's commercial policy.

In Austria the prohibitive system was established in 1659, by Leopold the First, who forbade the importation of all foreign goods except the strictest necessities. In Germany, the highly protective commercial policy inaugurated by Frederick the Great relied for its effectiveness largely upon prohibitions. In France the high protective duties contained in Colbert's tariff acts of 1664 and 1667 were changed to absolute prohibitions during the latter part of the seventeenth and the beginning of the eighteenth century. In England a rigid prohibitive system was inaugurated in the seventeenth century, the imports of certain manufactured articles having been forbidden under the penalty of death. After the industrial revolution England forbade the export of textile machinery; the aim of this measure was to prevent foreign countries from using English-made machines to compete with English textile fabrics. This policy did not lead to the prosperity so confidently looked for. It injured one industry, that of making machines, in order to guard against a probable future injury to another industry, the production of textiles. In 1826 a petition was presented by the machine makers of England, requesting the removal of prohibition on the export of machines; when the restrictions were removed the disaster feared by the British cotton manufacturers did not materialize; Lancashire continued to maintain its supremacy in supplying the markets of the world with cotton fabrics.

The prohibitive policy reached its highest expression in the Continental Blockade decreed by Napoleon the First in 1806. All communication with the British Isles was strictly forbidden. British subjects, if they were found on the territory occupied by the allied troops, were imprisoned and their goods were seized as lawful prizes of war. England replied by promulgating analogous measures against her foes. Napoleon justified his decree on the ground of military necessity; he expected that by its means English commerce would be speedily ruined and the country brought to terms. However, what he succeeded in accomplishing

was to ruin a number of French merchants, some of whom had to suspend payments while others were prevented from failure only through governmental assistance. As to British trade, it grew during the Napoleonic wars, in spite of the Continental blockade and in spite of previous prohibitive measures passed against British commerce by France in 1793. The value of English exports and imports rose from about \$170,000,000 in 1790 to \$438,000,000 in 1810.

A much more successful blockade than the one maintained by Napoleon against England was the blockade against Germany during the recent Great War. Through this blockade Germany was effectively cut off from overseas sources of raw materials, and her trade, excepting that with the allied and neutral neighboring countries, was practically annihilated. The blockade compelled Germany to practice a most rigid economy and to develop hundreds of substitutes for articles of food, shelter, clothing, and war necessities.

War Restrictions of Foreign Trade in Great Britian.—Restrictions of imports and exports were used quite extensively by Great Britain during the War. By means of royal proclamations or orders in council, the importation of certain goods not of Empire origin was prohibited, except as specifically licensed. At first restrictions applied to raw materials only, notably wool and some metals, but later they were extended to include a number of other commodities. While originally restrictions were made in order to give priority to the movement of foodstuffs and munitions, increased destruction of tonnage through the enemy submarine campaign led to the exclusion of all the less essential and bulkier goods in order to conserve shipping space and incidentally to develop home resources.

The policy of licensing imports was introduced in February, 1916, and in April of that year the Department of Import Restrictions was organized under the Board of Trade; this department was vested with the authority of administering the licensing system. Dealings in certain

goods, notably wool and some metals, were absolutely prohibited by means of orders issued under the Defense of the Realm Acts.

Immediately after the signing of the Armistice, temporary relaxations were announced, and in March, 1919, a revised list of restricted and prohibited commodities went into force. This list was modified from time to time and on September 1, 1919, it expired by limitation.

War Restrictions in the United States.—In the United States exports were restricted during the War by means of presidential proclamations. The Espionage Act, passed in June, 1917, for the purpose of punishing acts of interference with foreign relations, the neutrality and the foreign commerce of the United States, gave the President authority to declare unlawful in the interests of public safety the export of any commodity to any country "except at such times and under such regulations and orders and such limitations and exceptions as the President shall prescribe." The President appointed an Export Council and a few weeks later issued a proclamation prohibiting the shipments, except under license, of coal, grains, metals and a number of other products.

In October, 1917, the Trading with the Enemy Act was passed and the President created the War Trade Board for the purpose of administering this Act. At the recommendation of this Board, the President, on February 16, 1918, restricted the exportation from the United States of almost every commodity known to commerce. No shipments were permitted to any part of the world, except under license. At about the same time, certain imports into the United States were also prohibited; among these were peanuts from Asia, and currants, raisins, olives, and other foodstuffs from Greece and Italy. The main reason for restricting exports and imports was conservation of tonnage and the making available of additional shipping facilities for the transport of troops and supplies to Europe.

Under wartime legislation the importation of distilled

spirits has been subjected to various restrictive regulations. The "Food Control Act" of 1917 provided that there should not be imported into the United States any distilled spirits during the existence of a state of war between the United States and Germany. A few exceptions to this absolute prohibition were provided in the Act. Under the rulings of the Treasury Department, fermented liquors, such as wines, were permitted to enter the country. After the signing of the Armistice an Act was passed on November 21, 1918, forbidding the importation into the United States, during the period of demobilization, of distilled malt, vinous or any other intoxicating liquors. A presidential proclamation prohibited the import of any malt liquor for beverage purposes on and after December 1, 1918, and the War Revenue Act of February 24, 1919, forbade the import for beverage purposes of distilled spirits produced after October 3, 1917.

On January 16, 1920, the eighteenth constitutional amendment became operative, placing a ban on the importation and exportation, as well as on the manufacture, of all intoxicating liquors.

Export and import restrictions were gradually relaxed after the signing of the Armistice. The individual license system gave way to the use of blanket licenses. For exports, such licenses covered all commodities not contained in the export conservation list; blanket licenses could be used by exporters in making shipments to Great Britain, France, Italy, Belgium, Japan, and a number of other countries. At the same time imports could be carried on under general import licenses covering all products except sugar, pig tin and any article manufactured in Germany or Austria; goods could be brought in under such licenses from all countries of the world except Germany, Bolshevist Russia, Hungary and Luxemburg. A proclamation issued in 1918 prohibited the exportation of firearms and munitions into the territory under the control of the Bolshevist Government.

Prohibitions of a Protective Character.—Prohibitions as a peace measure for the purpose of protecting and fostering domestic industries have not been used extensively in recent years by any of the advanced commercial nations. However, such prohibitions do exist, as for instance, the ban placed by the United States, by Great Britain and by the latter's self-governing colonies on the importation of goods made by prison or pauper labor. Tariffs of many countries prohibit the importation of articles which infringe on domestic trade marks and copyrights.

The prohibition against importing "oleomargarine, butterine, or similar substitutes for butter" into Canada may be attributed to the desire on the part of the Canadian Government to protect Canadian dairy interests.

In some European countries, where the Government has for fiscal purposes a monopoly in the production of certain commodities, notably salt, matches, tobacco, playing cards, the importation of such commodities is either forbidden or subjected to governmental regulation and control.

Police Prohibitions.—The majority of present-day prohibitions are enacted not for commercial or fiscal reasons, but to protect public health, morals, religion or to secure public safety. Prohibitions having such aims in view are often put into operation by executive decrees or proclamations, though in most tariffs, including that of the United States, there are special provisions prohibiting the bringing into the country of articles which are considered injurious to health, immoral, or dangerous.

At times, reasons of a sanitary character were given in order to enact measures the real purpose of which was economic protection; this was done because of the disrepute into which prohibitions aiming at the achievement of commercial aims had fallen. Among such prohibitions, used ostensibly as police measures, were the decrees excluding American meats from Germany; under the guise of preventing the bringing into the country of diseased cattle

and tainted meats, the German Government was pursuing the policy of helping German cattle raisers by effectively excluding American competition. However, most of the prohibitions based on sanitary grounds do not belong in this group of subterfuges; they are enacted because of a real need to protect domestic consumers against infected, or adulterated or otherwise harmful foreign products.

Immoral articles, such as obscene books, papers, advertisements, drawings and pictures have been placed under ban by all civilized nations; some of them add to the proscribed list writings, photographs and pictures of an irreligious, blasphemous, impious, treasonable, or seditious character; others include, among prohibited articles, opium except for medicinal purposes, unregistered patent medicines, debased or counterfeit coins, lottery tickets or advertisements of any lottery. Many countries, particularly in Central and South America, Asia and Africa, prohibit the importation of firearms, munitions, and explosives. The Russian pre-war tariff was very strict in excluding many kinds of arms and ammunition and in permitting the importation of certain other kinds only upon a permit from the Minister of Finance.

Some prohibitions are directed against what has been termed unfair or unlawful competition of foreign goods, through attempts to conceal the origin of the articles. The British Merchandise Marks Act of 1887 forbids the importation of: (1) goods bearing any forged trade mark; (2) goods to which is falsely applied any trade mark or any mark so nearly resembling a British trade mark as to be calculated to deceive; (3) goods " bearing any name or trade mark being or purporting to be the name or trade mark of any manufacturer, dealer or trader in the United Kingdom, unless such name or trade mark is accompanied by a definite indication of the country in which the goods were made or produced "; (4) goods to which any false description is applied. It is the last clause which makes it necessary to clearly indicate the origin of all imported goods, as a false descrip-

tion is one which, among other things, " is calculated to lead persons to believe that the goods are the manufacture or the merchandise of some person other than the person whose manufacture or merchandise they really are." It was thought that the patriotism of British consumers would lead them to seek nationally made goods in preference to similar foreign articles. The results achieved have not met the expectation of those who were instrumental in passing the law, the British public in many instances looking for the label " made in Germany " or " made in France " and refusing to buy unless such labels were on the goods. The consumer under ordinary circumstances is governed in his purchases not by national considerations but by the desire to obtain the most suitable article at what he considers the most reasonable price.

The French tariff of 1892 contained a clause excluding all articles which, through marking or in any other way, could mislead Frenchmen into believing that the commodity was of French origin. The United States Tariff Acts from 1890 onwards have provisions requiring "that all articles of foreign manufacture or production, which are capable of being marked, stamped, branded or labeled without injury, shall be marked, stamped, branded or labeled in legible English words, in a conspicuous place," . . . " so as to indicate country of origin." Many other countries have passed similar measures.

Under the provisions of various laws and proclamations, the following articles are absolutely prohibited from importation into the United States:

(1) Obscene and immoral books, pamphlets, papers, pictures, and drawings, lottery tickets, (2) convict labor goods, (3) wild animals, insects and birds, injurious to the interests of agriculture, (4) piratical copies of copyrighted works, (5) articles bearing a name or mark calculated to induce the public to believe that the article is manufactured in the United States, (6) counterfeits of coins and securities, (7) white phosphorus matches, (8) films or other

pictorial representations of any prize fights to be used for purposes of public exhibition, (9) smoking opium, (10) impure and unwholesome tea, (11) adulterated seeds.

Restricted Importations into the United States.—The importation of aigrettes, egret plumes, feathers, heads and skins of wild birds, unless imported for scientific or educational purposes, is prohibited; skins of fur seals or sea otters, and garments made thereof may not be imported unless the seals and the sea otters have come from certain waters specified in treaties with foreign countries. Foods and drugs before being admitted are examined at the port of entry by the Department of Agriculture in order to pass upon their compliance with the requirements of our Pure Food and Drug Law. Plants and nursery stock are barred unless a permit for the importation thereof has been issued by the Secretary of Agriculture.

Cigars can not be imported in quantities of less than three thousand in a single package, and they must be packed in boxes of not more than five hundred cigars to a box.

Retaliatory Prohibitions.—Prohibitions are sometimes enacted for retaliatory purposes. Of such a nature was an act passed in the United States in 1916. According to this act, if a country were to prohibit the importation of any article which was the product of the soil or industry of the United States and which was not injurious to health or morals, the President was empowered to prohibit the importation from that country of similar articles or, if no such were imported, of any other articles; the prohibition to remain in force as long as the other country retained hers.

The Tariff of 1922 authorizes the President to issue proclamations excluding from the United States goods coming from countries which persist in discriminating against the commerce of the United States after the President, through the establishment of new or additional duties, has attempted to remedy the situation.

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CHAPTER VI

CUSTOMS DUTIES, BOUNTIES AND PREMIUMS

Origin.—Duties were originally taxes levied on goods for fiscal purposes; as such they were employed in antiquity; their use became especially pronounced during the Middle Ages when numerous tolls had to be paid by itinerary merchants. Tolls were levied for the use of roads, rivers, fording places, bridges; for the removal of obstructions often artificially placed by the toll gatherers, such as a rope across a highway; for protection against brigands; for the privilege of entering or leaving a city. These many tolls, or custons, the latter name having been given to them because of their denoting customary payments, weighed heavily upon the economic life of the people; they hindered the welding together of isolated communities into national entities.

With the fall of feudalism and the establishment of a more or less centralized control over state activities, there arose a tendency toward the elimination of internal tolls. Taxes began to be collected on the frontiers of the politically unified states; these frontier taxes took the form of import, export, or transit duties; their aim in many instances was not the obtaining of revenue but the protection of national industries against foreign competition. Duties took on national significance during the time of Cromwell in England and of Colbert in France. In Germany the use of duties as a measure of national commercial policy did not begin until the formation of the Zollverein in 1834, Prussia having resorted to them in her tariff act of 1818. In the United States the abolition of all internal customs and the

unification of all duties, imposts and excises throughout the country was effected by the adoption of the Constitution in 1789.

Import Duties. Fiscal or Revenue Duties.—The main purpose of fiscal duties is the obtaining of revenue; such duties are imposed either upon raw materials or upon finished commodities, according to the degree of the industrial development of the countries imposing them. Economically advanced countries usually tax for fiscal purposes some unmanufactured goods which are not produced and can not well be produced at home. Commodities selected are those for which there exists a more or less inelastic demand, such articles as, for example, coffee, tea, sugar, spices, cotton. Countries in an extractive stage of development levy fiscal duties on manufactured products. Many duties, while they are designed primarily for protection, are revenue producers, in so far as they do not exclude importations entirely, just as many duties, while levied mainly for fiscal purposes, offer protection to national industries in so far as they raise the prices of imported goods.

The character of the duty may change from fiscal to protective and vice versa. An example of such a change is offered by the duty on tin plates in the United States. Prior to 1891 it was purely a revenue tax, no tin plates having been made until that date in this country. After 1891 the industry began to be carried on and the duty on tin plates became one of the protective features of our tariff legislation. There can be no doubt that with the growth of manufactures in the South American republics many of their duties on finished commodities, which are at present fiscal in character, will become protective.

A duty may be changed from a protective to a fiscal through the establishment of an internal tax which assesses home products equally with importations.

While commodities selected for the imposition of revenue duties should be such as are greatly in demand and such as do not lend themselves easily to substitution, they should not

be strict necessities. During Chamberlain's tariff reform agitation in Great Britain in the latter part of the nineteenth and the beginning of the twentieth century, frequent attempts were made to alienate the sympathies of the British masses from the then existing British tariff, by pointing out that in levying duties on tea and coffee the tariff was taxing the workingman's breakfast table. The point would have been better made if it were not for the fact that Chamberlain and his adherents were proposing to tax breadstuffs and many other essentials of the workingman's budget.

The Present Rôle of Duties as Revenue Producers in the United States.—With the tremendous rise in governmental expenditures during the past few years, customs duties have lost their relative importance as revenue producers. The following table shows clearly that the United States now depends largely not on duties but on internal taxes in order to meet the budgetary requirements of the Government.

U. S. CUSTOMS REVENUES AND INTERNAL REVENUE RECEIPTS

Fiscal Year	Customs	Internal Revenue
1900	233,165,000	295,316,000
1905	261,799,000	234,188,000
1910	233,683,000	289,957,000
1914	292,370,000	380,009,000
1918	179,998,000	3,698,956,000
1920	322,900,000	5,408,075,000
1921	308,564,000	4,595,357,000
1922	356,443,000	3,197,451,000

Protective Duties.—Theoretically, protective duties are levied for the sole purpose of protecting home industries against foreign competition: In practice, there are very few such duties, most duties, even if they are intended for protection, incidentally yielding some revenue. The lower the protective duty the larger usually is the revenue derived from it, due to the greater amount of importation.

In accordance with the class of industries whose protection is sought, duties may be divided into industrial or manufacturing duties and agricultural or agrarian duties.

Industrial Duties.—Industrial duties are levied in order to give protection to the manufacturing industries of a country. The question of how high a protective duty should be has formed the subject of much controversial discussion; the most accepted formula on the part of protectionists in this country now is that it should be sufficiently high to equalize the cost of production abroad and at home; to this many add that it must also insure a reasonable amount of profit to American manufacturers. It is clear that duties raised to such heights are tantamount to prohibitions. While a protective duty should be sufficiently high to act as an effective check on importations, the making of duties prohibitive in character can not be considered as wise even from a protectionist standpoint.

One of the results which is likely to follow prohibitive duties is an overexpansion of protected industries. Overexpansion may be partly due to the fact that the complete security of the home market acts as too great a stimulus; it attracts into enterprises so protected more capital and labor than the conditions of the country warrant; overexpansion may also be caused by a temporary increase in the domestic demand; this increased demand may be followed by a period of retrogression. Since importations are ruled out, greater domestic demand must be met by the expansion of home industry; when the demand slackens, additional products become a drag on the domestic market; their disposal abroad is hindered through the country's treatment of imports.

Agricultural Duties.—The use of agricultural duties is of comparatively recent origin in the commercial policies of different countries; such duties were considered unnecessary and inexpedient during the early stages of protectionist theory and practice. Their application was viewed as an obstacle to the much-desired national industrialization, the

latter, in the opinion of the older economists, being based upon low prices for food and raw materials with their accompanying low wages and low production costs. Agricultural duties, according to their view, were also unnecessary because the comparatively low value of raw products coupled with their great bulk and weight prevented their international movement on a large scale. This view was justified before improvements in the means of locomotion introduced the era of railways and large steamers.

Agricultural duties were first applied as a result of the agrarian crisis which befell the industrialized states of Europe in the latter part of the nineteenth century. This crisis was ascribed to competition of the vast grain-producing areas of the United States and Russia and somewhat later of Argentina and Canada. The demand for protection was especially insistent in Germany, where the parties hit by the drop in prices of agricultural products were the rich and influential landowners of Prussia. Moderate duties on grain, which existed in Germany during the first half of the nineteenth century and which were abolished in 1865, were reestablished when a new tariff act was passed in 1879. The duty on wheat and rye was raised from 1 mark per 100 kilograms to 3 marks in 1885 and to 5 marks in 1887; duties were also raised on oats, corn, and buckwheat.

In France a duty of 0.62 franc for 100 kilograms was put on wheat in 1860; this duty was raised to 3 francs in 1885, to 5 francs in 1887 and to 7 francs in 1892; duties on wheat flour, rye, oats, corn were also increased proportionately.

A similar policy of agricultural protection was followed by Italy, Spain, Austria-Hungary, Sweden, and Norway. In the course of the development in the use of agricultural duties, livestock raising, the growing of sugar, of fibers, and of grapes, as well as of various garden and truck products, were included in the group of protected industries. Agricultural duties became a part of a well-rounded system of protection which strives to take care of every national economic activity.

Transit Duties.—Transit duties are taxes levied upon goods which are moved across the territory of one country to a destination outside of that territory. Such duties were retained for a long time after the abandonment of internal tolls. The height of transit duties was originally determined by the height of import and export duties; goods passing through a country had to pay the combined amount of both duties. While fiscal considerations prompted the establishment of transit duties, it was soon discovered that such duties could be used also for commercial purposes; they acted as a check on the movement of foreign commodities through a country; this stimulated domestic production to supply the markets formerly reached by foreign producers.

Improvements in the means of transportation, especially the advent of railroads, made the imposition of transit duties undesirable. It became possible to reach a given market via a number of routes, and obstacles placed on one route had the effect of diverting traffic to other channels. This meant the loss of the advantages which accrue to a country from the passage of goods through its territory.

The realization of this fact led to a gradual reduction in transit rates. Special rates replaced transit duties, which consisted of combined import and export rates. The principle of freedom of transit was introduced at a much later period. France removed all transit restrictions in 1842, comparatively high duties having been maintained by her until the thirties of the nineteenth century. The example of France was followed by England, Holland and Belgium. The Prussian tariff of 1818 contained high transit duties; these were lowered with the formation of the Zollverein and finally abolished in 1861. Austria-Hungary discontinued transit duties in 1862.

The abolition of transit duties led to the introduction of bonded railroad cars and bonded warehouses to take care of dutiable goods while in transit.

Export Duties.—Export duties are taxes levied on goods when they are shipped out of a country. Such duties were employed extensively in the past, especially for fiscal purposes. Their use in order to further commercial aims was first advocated by the mercantilists. During the ascendancy of the mercantilistic ideas, export duties played a prominent part in the general policy pursued for the encouragement of domestic manufactures. They would have been used more frequently at that time were it not for the fact that more drastic measures, such as prohibitions, were then frequently resorted to. The harmful effects which the restriction of exports of foodstuffs and raw materials had upon agriculture and other extractive pursuits led to the gradual abandonment of export taxes. At present comparatively few countries resort to such measures.

The United States is forbidden to levy export duties by the Constitution, which contains a provision that no tax or duty shall be laid on articles exported from any state of the Union.

Export duties existed in England as late as the end of the eighteenth century. England then collected a duty of half of one per cent on all goods shipped from the British Isles to the continent of Europe and a duty of 2 per cent on all shipments outside of the European continent; the last English export duties to disappear were those on coal and wool, which were abolished in 1845. Some export duties were reestablished at the time of the Boer War and during the War of 1914–1918.

About one-third of the income derived from the customs of France in the middle of the eighteenth century was from export duties; it was in the course of the nineteenth century that France gradually abolished such duties. Germany was the last of the great commercial nations to abandon her duties on exports.

Fiscal Export Duties.—Export duties, in so far as they exist to-day, may be divided into revenue or fiscal duties, commercial or protective duties, and duties issued as police

measures. Fiscal duties are the most numerous. They are particularly well adapted to those countries which have a practical monopoly in the production of some commodity, a demand for which exists in foreign countries. The more inelastic the demand and the greater the difficulty of finding substitutes, the easier it is for a government to tax the exports of a commodity without unfavorably affecting its sale abroad; consumers in foreign countries then pay the full extent of the duty.

Some conspicuous examples of such export duties are those imposed by Chile on nitrate of soda, by Spain and by Portugal on cork, by Central American republics and by Brazil on coffee and rubber. An export duty on tin-ore equaling $30 per picul, was adopted by the Malay States in January, 1917. Another recently introduced export duty is that on palm oil from the British West African possessions.

A small export duty on tea exists in China. In Japan, until the adoption of the Tariff Act of 1897, there were about fifty export duties levied on such articles as silk, tea, copper, etc.

Among other commodities which are subjected to revenue export duties may be mentioned tobacco, woods, tropical fruits and nuts, sugar, rum, molasses, hides and skins, ivory, sponges, rice, spices, shells, and precious stones. As may be noted from the enumeration, most of these are the products of industrially backward countries of the continents of Asia, Africa, Central and South America. Some undeveloped countries levy for revenue purposes a general duty on all exports; such was the case, before the War, in Turkey, Egypt, Sudan, Serbia, Bulgaria, and Persia.

Protective Export Duties.—At present there are few export duties aiming to protect national industries. Before the introduction of wood-pulp paper, one of the most general export duties was that on rags; this duty was raised by many European countries in order to assure their paper manufacturing industry an adequate supply of raw material. Export duties have been placed in recent years by Norway and by Sweden on timber in order to preserve their forests;

by Switzerland on cattle and hides for the purpose of protecting her dairy and leather interests. Spain placed a duty on iron ore; Ontario and Quebec on pulp-wood. South Africa has export duties on ostriches, ostrich eggs, and Angora goats; the purpose of these duties is to help the production and marketing of ostrich feathers and of mohair.

Police Export Duties.—Export duties of a police character are levied in times of a temporary urgent need in order to prevent certain products from leaving the country. They have been resorted to when crop failures were threatening a country with famine or when animal plagues were likely to create a scarcity of meat products. Such duties are discontinued when their object has been attained.

In 1901 Great Britain imposed an export duty on coal and coke; this duty was caused by financial needs which arose in connection with the Boer War. The danger of a loss by England of her dominant position in the world's coal market caused a speedy discontinuance of this duty.

Countervailing Duties. Countervailing duties are duties levied on goods which receive a premium or bounty in the exporting country. Bounties are granted exporting manufacturers in order to enable them to charge lower prices in foreign markets. For the purpose of neutralizing the effect of such bounties and of maintaining unimpaired the wall of protection, countries receiving bounty-fed goods resort to the levying of countervailing duties. These duties are charged in addition to the regular rates and they usually equal the net amount of the bounty granted by the exporting country. The Fordney-McCumber Tariff of 1922 provides that such duties be levied whenever bounties or grants are bestowed on goods directly or indirectly, whether the same are imported from the country of production or otherwise and whether they come in the same condition as when exported from the country of production or have been changed in condition by remanufacture or any other method.

Anti-dumping Duties.—Canada was the first country to pass special duties against dumping. She imposed such duties in 1904. The Canadian Act of 1907 defined dumping as the sale of an article at less than the fair market value of the same article when sold for home consumption in the usual and ordinary course in the country whence exported to Canada, at the time of its exportation.

This definition of dumping differs from that contained in the British " Safeguarding of Industries Act " of 1921, according to which dumping is the offer of goods for sale at prices below the cost of production or at prices which, by reason of the depreciation of currency in the exporting country, are below the prices at which similar goods can be profitably made in the United Kingdom.

The United States Emergency Tariff Act of 1921 contained provisions authorizing the imposition of special duties on merchandise offered for sale at less than its " fair value " and likely, in the opinion of the Secretary of the Treasury, if imported into the United States to injure an industry or prevent its establishnemnt. According to this Act, an anti-dumping duty was to be levied if the exporter's sale price or the purchase price was less than the foreign market value (or, in the absence of such value, than the cost of production).

The two most conspicuous examples of dumping are:

1. A sale abroad, at a price below the domestic price, of a surplus that can not be disposed of at home, or that, if so disposed of, would disorganize the domestic marked by throwing goods upon it at sacrifice prices.

2. A constant, deliberate selling abroad, below the domestic price, of a part of a factory's output, in order to keep the factory operating full time, since by doing so the average cost of production may be reduced and profits increased.

The height of anti-dumping duties varies. The Canadian tariff of 1907 provided that the special duty could be raised to a maximum of 15 per cent ad valorem. Australia and

British South Africa have followed the example of Canada and have introduced similar provisions in their tariff acts.

The "undervaluation" section of the United States Tariff of 1913 was directed against dumping as well as against undervaluation proper. The special anti-dumping duty was not to exceed 15 per cent ad valorem on all goods entered in good faith but at prices lower than their market value for domestic consumption in the country of origin.

The United States Revenue Act of 1916 contained very stringent anti-dumping provisions. This Act made it unlawful to import into this country "commonly and systematically" articles "at a price substantially less than the actual market value or wholesale price of such articles at the time of exportation to the United States in the principal markets of the country of their production or of other foreign countries to which they are commonly exported 'after adding charges' necessarily incident to the importation and sale thereof in the United States." Violations of this Act were made punishable by a fine not exceeding $5000, or imprisonment not exceeding one year, or both. Persons injured through such violations were authorized to sue the guilty parties; they could recover threefold the damage sustained and the cost of the suit.

The Tariff of 1922 provides against unfair methods of competition, by declaring unlawful importations "the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States." The President is empowered to impose an additional duty not exceeding 50 nor less than 10 per cent ad valorem, and in extreme cases he is authorized to exclude the goods from entry into the United States.

The special anti-dumping duty of the British "Safeguarding of Industries Act" is 33⅓ per cent.

The most objectionable features of dumping lie in the usually spasmodic character of this form of competition.

The sudden influx of underpriced foreign commodities tends to unsettle domestic industries making similar goods. Such competition can not well be prepared for nor guarded against by the country's producers. Their inability to meet it leads to the curtailment of home production, with its waste of industrial equipment, shorter working hours, smaller wages, total unemployment and final diversion of a part of the country's capital and labor from the industries affected by dumping, into other lines of work. Dumping usually gives to the importing country an intermittent supply of goods; cheap merchandise ceases to come in as soon as the conditions in the exporting country make dumping unnecessary. When dumping ceases, home industries which have been prostrated by it enter upon a period of readjustment and growth, only to be stricken again with the renewal of dumping. Dumping thus introduces uncertainty into the economic life of a country; it leads to a recurrence of periods of transition from one line of work to another, with all the ills which such periods usually entail.

AD VALOREM AND SPECIFIC DUTIES

According to the manner in which duties are levied they are classed as *ad valorem* or *specific*. The former are based on the value of goods and are indicated in percentages; the latter are based upon units of weight or measurement, and are calculated at so much per pound, yard, dozen, etc. Both kinds of duties have their advantages and disadvantages.

It is claimed for *specific duties* that they present less opportunity for errors of judgment and for fraud in the form of undervaluations and that they do not require an elaborate appraisement machinery; thus they are cheaper to administer than ad valorem duties and, given the same amount of duty, they yield more revenue to the national treasury. Owing to the simplicity of their administration, it also requires less time to pass the goods through the custom house.

The main disadvantage of specific duties lies in the fact that they fall unequally upon the various grades of commodities, usually taxing coarser and less expensive wares proportionately higher than finer and more valuable articles. In order to overcome this disadvantage, tariffs containing specific duties have usually minute classifications of merchandise based upon the degree of manufacture, the nature of the elaboration processes which the goods undergo, the fineness of the material out of which they are made, or some other distinguishing characteristic; special rates of duty are applied to different groups of commodities within the same classification.

The protectionists of Europe have been favoring specific duties for two main reasons: (1) these duties do not fluctuate with the fluctuations in the price of goods; an ad valorem duty declines with the fall in the price of a foreign commodity, the decline occurring just at the time when the duty should rise or at least remain stationary in order to offer adequate protection to national industries; (2) specific duties conceal from the general public the extent of taxation to which imports are subjected. The height of the duty is obvious when the rate is indicated in percentages of the value of commodities, but it is often difficult to visualize how high the duty is when it is expressed in so many cents per pound, per yard, or some other unit of measurement.

Specific duties may be said to be best adapted to raw materials and semi-manufactured products in the case of which differences between grades are not many and can usually be easily ascertained; finished products, especially of high and varying values, are best adapted to ad valorem duties.

The main advantages of *ad valorem duties* are their elasticity and self-adjustment to the value of the goods. Their use obviates the necessity for an elaborate classification of merchandise in the tariff. As such duties insure an automatic taxing of expensive commodities at higher rates than cheaper goods, the ad valorem duties are more equitable

than the specific ones. On the other hand, ad valorem duties present great difficulties from an administrative standpoint. They require expert officials for the ascertainment of correct values of commodities and for the prevention of fraudulent practices on the part of importers. There is a great temptation to undervalue goods, and to corrupt officials.

Since the establishment of the system of appraisement in 1918 the task in the United States has been to devise regulations incapable of evasion and excluding the possibility of collusion between the importer and the customs officer. On the whole the system has worked effectively.

The two principal safeguards against undervaluation are: (*a*) the requirement of a certified consular invoice if the value of imported merchandise exceeds $100; (*b*) the appraisement of imports by expert officials.

Opinions regarding the value of consular invoices as a check on fraudulent pricing of goods vary. Some state that millions of dollars are saved each year for the treasury through the requirement of such invoices, while others look upon them as a mere formality. It seems reasonable to expect a reluctance on the part of shippers to undervalue goods if they have to appear before a consul at the place of shipment and certify under oath to the correctness of the invoices. However, in many concerns there are members of the firm who intentionally remain ignorant of the facts and who with a "clear conscience" may go before a consul and certify that "to the best of their knowledge and belief" the invoice values are correct. The consuls can not know and are not expected to know prices of all the articles likely to be shipped from the districts in which they are located; the fact that appraisers find undervaluations in consular invoices does not discredit the work of the consuls. The appraisers are usually men of knowledge and experience who are able to pass readily on the precise nature and the value of imported goods; they have at their disposal price lists, trade papers and other sources of information which help them in their rather difficult task.

The "appraiser's store" or department in New York has twelve main "divisions," each being entrusted with the appraisement of certain specified commodities.

Germany (the German Zollverein) abolished most of the ad valorem duties in the sixties of the nineteenth century. Italy abolished such duties in 1878, and France discontinued their use after the termination of the treaties of 1862. No ad valorem duties were contained in the pre-war tariffs of Great Britain, Austria-Hungary and Russia. The most important European countries which had such duties before the War were Belgium, Holland, Norway, Sweden, and Portugal.

The retention of a large number of ad valorem duties by the United States may be partly attributed to the peculiar conditions existing in the American import trade. Most of our imports come from overseas, through comparatively few ports, New York being by far the largest importing center of the country. This permits a much greater concentration of customs administration work than is possible in such countries as France or Germany, where goods may cross national frontiers through many border towns, each requiring its complement of customs officials. The latter conditions make specific duties more desirable; the administration of such duties is comparatively easy, and it does not call for officials of the same degree of knowledge and experience as does the administration of ad valorem rates.

In most of the South American republics, the rates, though nominally ad valorem, are in reality specific. These republics have in force fixed valuations for a large number of commodities and their duties are expressed in percentages of such valuations and not in percentages of market values or import prices of goods, as is the case when actual ad valorem duties are used.

Compound or Compensating Duties.—Compound duties are duties combining specific and ad valorem rates. They are, as a rule, levied on manufactured commodities into the making of which enter raw materials subject to import

duties. The purpose of the specific rate in the compound duty is to offset the increased cost of production due to taxes placed on imported raw materials, while the aim of the ad valorem rate is to offer protection to manufacturers against foreign importations. Compound duties providing compensation for duties on raw materials used by domestic producers became a distinct feature of American tariff legislation with the passage of the Morrill Tariff Act of 1861. They were applied in this Act to the woolen schedule. The tariff placed a duty of 3 cents on the kind of wool chiefly used in the United States and as a compensation for this it provided a duty of 12 cents on a pound of woolen cloth; this was done on the assumption that it takes about 4 pounds of wool to make 1 pound of cloth. A separate ad valorem duty of 25 per cent was added to the specific rate. Compound duties on woolen cloth were retained in our subsequent tariff acts, with the exception of the Act of 1894; they were discontinued in 1913.

Basis on which Duties are Levied.—The basis on which duties are levied varies. In some countries it is the net weight of the goods, which consists of the weight of the article itself and that of the immediate container; in other countries the gross weight is considered as the basis for the assessment of the duty; this adds considerably to the amount to be paid, as it taxes the weight of the outside case, crate, or any other outer packing. In a number of countries a ruling exists that if several articles are packed in the same container they are all taxed at the highest rate that applies to any one article in the lot. In most European countries only those articles are assessed on gross weight to which a low rate of duty is applied; all others pay either on net weight or on "legal" weight, the latter being determined by deducting from the gross weight a "tare" allowance established by the government; this allowance usually equals approximately the weight of the external container. There are exceptions to this rule in some parts of Europe, and particularly in South America.

In the United States, if the merchandise imported is subject to an ad valorem rate, the immediate containers or coverings are likewise dutiable; the rate of duty is the same as that applicable to the merchandise itself. If the contents are dutiable at a specific rate, the containers or coverings are admitted free of duty, unless specially made dutiable. Coverings of unusual material, article, or form, designed for use otherwise than in the *bona fide* transportation to the United States, are subject to a duty which they would have to pay if separately imported.

For the purpose of assessing duties, according to the Tariff of 1922, the value of imported goods is, as a general rule, the foreign value or the export value, whichever is the higher. The foreign value is construed to be the market value or price of merchandise at the time of its exportation to the United States, and at which similar merchandise is freely offered for sale to all purchasers in the principal markets of the country from which it is exported, in the usual wholesale quantities and in the ordinary course of trade; the price must include the cost of all containers and coverings and all other costs incident to placing the merchandise in condition for shipment to the United States. This basis of assessing ad valorem duties, substantially the same as used in our previous tariffs, has been adopted after much discussion.

The Fordney Bill, as passed by the House of Representatives, contained a provision for an *American valuation*. The value, according to this Bill, was to be " the price, at the time of exportation of the imported merchandise, at which similar domestic merchandise packed, ready for delivery in the principal markets of the United States is sold or freely offered for sale to all purchasers in such markets." In the absence of such domestic merchandise the price of similar imported merchandise as is offered for sale in the United States was to be taken as the basis for the establishment of the value of subsequent importations. In case of the inability of the appraising officers to ascertain to their satisfaction the

" domestic " value or the " import " value, then the export value of the merchandise was to be used, to which were to be added duty, cost of transportation, insurance and other necessary expenses, from the place of shipment to the port of arrival in the United States as well as a reasonable amount of profits and general expenses, not less than 16 per cent.

The advocates of the " American " valuation plan may be divided into two groups: (1) those who favor it as an emergency measure made necessary by the depreciated and unstable currency of foreign countries; (2) those who recommend it as a permanent policy to be adopted by the United States because it would effectively stop undervaluations and would lead to the assessment of the same amount of duty against all countries, regardless of the cost of production in these countries; according to the latter view, " foreign valuation " basis gives an undue advantage to countries having a low cost of production.

The opponents of the American valuation contend that:

1. The plan, notwithstanding its apparent plausibility and directness, is exceedingly hard to apply. The selling price in the principal markets of the United States varies considerably because of the vast expanse of our country; the same article may sell at $5 in New York, at $5.50 in Cleveland and at $6.00 in Seattle. Which of these prices should be taken as representing the value of importations?

2. The adoption of the American valuation plan would mean a departure from a procedure upon which have been based all the training of our customs officials, all the rules and regulations of the Treasury Department, and all the decisions of the courts upon the matter of appraisement; the adoption of the home valuation would mean the casting aside of a well-organized and effectively operating system.

3. Importing would become a hazardous and uncertain undertaking. Advance orders form the basis of much merchandising; such orders would be hampered, because importers would have no way of knowing what the dutiable

selling price of goods would be at the time when the ordered foreign articles were shipped.

The adoption of the American valuation in connection with the Fordney Bill was rigorously opposed, because its adoption would have resulted in carrying the duties to heights which would have made importations of many commodities practically impossible. The adoption of a home valuation automatically increases ad valorem duties unless it is accompanied by a reduction in rates; such a reduction the bill did not contemplate; on the contrary it represented essentially an upward revision of duties.

Flexible Rates of Duty.—The United States Tariff of 1922 introduced flexible tariff rates to be administered by the President. The purpose of such rates, according to those who sponsor them, is to create means for meeting fluctuating trade conditions. The fixing of the upper and lower limits of duties is left to Congress, but within these limits the President is authorized to proclaim tariff rate decisions to have the same effect as if they were fixed by legislation.

Flexible rates have been attacked by many as a relinquishment by Congress of one of its main prerogatives, the promulgation of duties. Irrespective of the merits of the constitutional controversy, one may doubt the wisdom of possessing a tariff with flexible rates. Such rates add to the uncertainty of doing an importing business and thus react unfavorably upon the foreign trade of the country in general.

The Tariff of 1922 permits the President to raise the duties to the extent of 50 per cent above the rates established by this tariff, if he is satisfied that the duties fixed are not sufficient to equalize the "differences in costs of production in the United States and the principal competing country." When such an advance is found inadequate to accomplish the desired aim, the President may order the assessment of the duty upon the American instead of the foreign valuation.

The tariff empowers the President to raise the duties

up to 50 per cent ad valorem, or even prohibit the importation of certain articles should it be shown that unfair methods are used in import trade which tend to injure an efficiently operated industry in the United States, or to prevent the establishment of such an industry, or to restrain trade within the United States.

Upon proof of the existence of foreign practices which discriminate in any way against American commerce and shipping as compared with those of any other country, the President may impose additional duties up to 50 per cent, and in some cases may even exclude, under penalty of seizure, the products of a country guilty of such discrimination.

The Tariff Commission is granted larger powers than heretofore possessed by it to conduct investigations into foreign and domestic conditions of production and marketing, so as to be able to better assist the President in the exercise of his new discretionary authority.

Premiums on Production.—Premiums on production are granted by the government of a country in order to allow a domestic industry whose costs of production are higher than those of a similar foreign industry to compete with the latter. Premiums differ from customs duties in that they do not raise the price of the products in the protected industry; when premiums are given, those who are called upon to contribute to the ability of domestic producers to meet foreign competition are not only the consumers of the protected goods, as is generally the rule in the case of customs duties, but all the taxpayers of the land. Those who benefit in a pecuniary way from the granting of premiums are not only producers who are enabled to gain control over the domestic market, but also consumers of the wares of a premium-supported industry; as a rule, they can buy the goods at a lower price than they would have to pay were the industry protected by means of customs duties.

Premiums may be either open or concealed. A concealed premium consists in the remission of internal taxes,

which some countries grant to newly established industries. Such a remission of taxes usually means increased taxation of other industries.

Premiums may be traced back to the time of mercantilism, Colbert having used them in order to foster the French silk culture. Premiums were resorted to also in Ireland in order to aid the flax and hemp industries. Premiums never achieved the same degree of universal and continuous application as did the customs duties, and they are employed at present only in exceptional cases.

Subsidies and Subventions.—One kind of premium merits special consideration; it is offered to transportation companies and is known as a subsidy or a subvention. The difference between a subsidy and a subvention is that the first is a governmental grant without conditions attached to it, while the second is a grant which is conditioned upon the performance by the grantee of some prescribed services. Steamers belonging to the holder of a subvention may be required to transport mails, to go at a certain speed, and to leave the ports at certain scheduled times.

When granting pecuniary aid, governments usually stipulate that certain rules must be adhered to in the construction and equipment of boats and that ships must be delivered to the government in times of war, shipowners being entitled to a remuneration.

Payments of premiums are made either in a lump sum or periodically, each month, each year, or at some other interval of time.

Governmental Aid to Merchant Marine in the United States.—No general bounties, similar to those granted by France, Italy, and a few other nations, were ever paid by the Government of the United States, for the purpose of aiding either shipbuilding or shipping.

The first encouragement to maritime interests of the country was that given by the act of July 4, 1789, which allowed a discount of 10 per cent of the regular tariff rates on all goods imported in ships built and owned by American

citizens. Further advantages were granted American vessel owners on July 20, 1789, through the imposition of higher tonnage taxes on foreign ships; the measure practically excluded ships not owned by Americans from engaging in coastwise trade; this trade was absolutely closed to foreign vessels on March 1, 1817. In 1794 the discount of 10 per cent in tariff rates allowed on goods brought in American ships was changed to an additional 10 per cent duty if commodities came in foreign ships.

At the close of the War of 1812 the policy of preferring American shipping interests was modified. Treaties were concluded with other nations which led to the abandonment of preferential duties in return for similar concessions accorded to American vessels in foreign ports.

The initial law authorizing postal subventions, the only direct aid so far granted by the American Government to shipping, was passed in 1845. The law conditioned the granting of financial aid upon a prescribed manner of mail delivery to foreign countries. The total expenditures of the Government from 1847, when the first contract under the law was concluded, until 1858, when the giving of subventions was discontinued, amounted to $14,400,000, a very small sum as compared with the various grants which were given during the same period to the railroads of the country.

The Mail Subsidy Act of 1891.—The payment of postal subventions was revived through the passage of the Mail Subsidy Act of 1891. In accordance with the provisions of this Act, the Postmaster General has been permitted to conclude contracts with American shipping concerns for the transportation of the United States mail, the terms of the contracts to vary in accordance with the size and the speed of the vessels.

The act divided the ships into four classes, ranging in minimum gross tonnage from 1500 to 8000 tons and in speed from 12 knots to 20 knots; the highest payment provided is $4 per navigated mile, the lowest payment 66⅔ cents.

Only those ships are entitled to a subvention which have been built in the United States, which are owned and officered by American citizens, and which are manned by crews of whom Americans constitute a certain proportion varying from one-quarter to one-half of the total crew.

The effects of the Mail Subsidy Act upon the upbuilding of the American merchant marine and the development of American shipping have been disappointing.

The Panama Canal Act of 1912.—An important step toward increasing American tonnage in foreign carrying trade was made with the passage of the Panama Canal Act in 1912. This Act permitted the admission to American registry of foreign-built ships not more than five years old and a free entry into the United States of foreign materials for the construction and equipment of ships without making any conditions as to the use of the vessels built of such materials.

The Shipping Act of 1914.—After the outbreak of the War, the Shipping Act of 1914 was passed; this Act went much farther than the Panama Canal Act in its provisions for the upbuilding of the American merchant marine. It removed the age limit from ships which could be admitted to American registry; it also authorized the President to suspend certain provisions of law requiring survey and measurements of vessels admitted to American registry by the officers of the United States.

Various Aids to Shipbuilding and Shipping.—The most important forms of assistance to shipbuilding and shipping, outside of the granting of subsidies and subventions, are the following:

1. Loans to shipbuilders at a rate of interest below that prevailing in the open market.
2. Reservation of coastwise trade to native ships.
3. Exemption of native ships from port dues, canal dues, and other charges.
4. Free admission of shipbuilding materials and supplies.

5. Granting of preferential customs duties on goods imported in native vessels.
6. Establishment of preferential railway rates.

Export Bounties.—Export bounties are direct payments of money made by a government to exporters when they ship certain goods out of the country. Such payments are now seldom made. They were common under the mercantile system when every device likely to promote, through increased exports, a favorable balance of trade was eagerly made use of. In keeping with the general policy pursued by the mercantilists, bounties were granted mainly on manufactured goods, as it was the exportation of such goods that was considered most desirable. An example of a bounty on a raw material was that contributed by Great Britain in 1689 on wheat; the bounty was paid to exporters provided the domestic price was not above a certain figure. This export bounty remained in force until 1814.

The general effect of an export bounty is to raise the price of the bounty-fed article in the domestic market and to lower it abroad. The danger of granting bounties is that their granting by one country leads to the adoption of a similar device by other countries and to an all-round artificial stimulation of production in order to supply foreign markets.

One of the most conspicuous recent examples of the effect of export bounties was that produced by the payments made to exporters of beet sugar by a number of European countries, namely Germany, France, Russia, Austria-Hungary, Belgium, and Holland. The commercial rivalry between these beet-sugar producing nations led to the granting of all kinds of premiums, open and concealed, with subsequent overproduction, depression of prices, and losses to many producers of sugar beets. The nations that were the recipients of the bounty-fed sugar, though it meant lower prices of this commodity to their consumers, were not disposed to consider this as an unalloyed blessing. The importations of large quantities of cheap beet sugar meant

the driving out of business of the sugar-refining industry in Great Britain and the ruin of the cane-sugar production in British India, in the British West Indies and in other cane-sugar raising lands. Countervailing duties were promulgated against bounty-fed sugar; such duties were levied notably by the United States and by British India. England threatened the imposition of similar duties and the situation became so complicated that an International Sugar Conference was called. It convened in 1903 at Brussels and resulted in the virtual abandonment of bounties by most of the European nations.

Classification of Bounties.—Export bounties may be either direct and open, or indirect and concealed. The indirect bounty is usually the result of a law which provides for a refund of an internal tax when the product subjected to taxation is exported. It occurs when the tax is levied on the raw or semi-manufactured commodity and the article exported is a finished product. The exporter receives in the remission of the internal tax an amount greater than that which he had originally paid to the government. The difficulty of correctly estimating the amount of material necessary for the production of a finished article makes the granting of a concealed bounty a comparatively easy matter. For a number of years Germany was paying such a bounty upon the exportation of refined beet sugar; the indirect bounty arose because when the remission of the internal tax was established it took twenty pounds of beets to make one pound of sugar; due to improvements both in agricultural and manufacturing methods, fewer and fewer beets were necessary for the extraction of one pound of sugar; although the government was taking cognizance of this fact by continually reducing the ratio, the reduction did not keep pace with the changes in the technique of sugar raising and sugar extraction. The refunds to the exporters of refined sugar were thus always greater than the taxes which they had paid on the raw materials.

The German government, in granting the refund, was

fully aware of what it was doing; the purpose was the encouragement of exports and the stimulation of improvements in the industry. In 1891 Germany replaced the indirect bounty with a direct one. The law stipulated the lowering of this bounty in 1895 and its entire abandonment in 1896. However, the prevalence of bounties in other countries, the drop in the price of sugar and the pressure on the part of sugar producers led to the doubling of duty in 1896.

A remnant of direct bounties on exports may be found in the French premiums on the exportation of cured fish; the premiums are combined with the bounties on fisheries; their main purpose is the fostering of the French merchant marine.

Premiums on production and bounties, although they found an advocate in Alexander Hamilton, who in his Report on Manufactures recommended them as being in certain respects superior to customs duties, have been little used in American commercial policies.

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CHAPTER VII

THE TARIFF AND TARIFF SYSTEMS

Tariff Construction.—A customs tariff is a list or table of duties levied on goods when they pass the frontiers of a territory included within a tariff jurisdiction. Industrially advanced countries usually have a systematically arranged tariff divided into schedules, each schedule consisting of a group of allied articles.

The divisions of the United States tariff contain such schedules as the following: chemicals, oils and paints; earth, earthenware and glassware; pulp, paper and books. As a rule, the schedules in a tariff are subdivided into sections, and duties are indicated for each section.

The structure of a tariff designed for fiscal purposes is much simpler than the structure of a tariff whose principal aim is the protection of home industries and the provision of an instrument for bargaining purposes.

The most conspicuous example of a simple fiscal measure was the pre-war tariff of Great Britain; it contained a very small number of commodities alphabetically arranged; a duty was indicated in the case of each commodity. The number of dutiable commodities was reduced in the British tariff from 1163 in 1874 to 44 in 1862; the fiscal purpose of the tariff is shown by the amount of customs revenue, which rose during the same period from £21,899,000 to £24,036,000. Not all tariffs designed primarily for revenue purposes are as simple as the tariff of Great Britain was and as it still is. The revenue tariffs of some of the South American republics are long and complicated measures, and expert knowledge is required in order to pass merchandise without difficulty through the custom houses at which they are in force.

Some backward countries have no classified tariffs; they impose a general ad valorem duty on all imports and often also on all exports, irrespective of the nature of the goods or the degree of their preparation for final consumption.

A step in advance is the adoption of a tariff which provides for the levying of different rates of duty, commodities being grouped according to the rate which they have to pay. Such a classification does not permit of a careful specialization and it is not used by the leading commercial nations, among whom there is manifest, on the contrary, a distinct tendency toward making their tariffs increasingly specialized and detailed. The basis of classification used by them is not the rate but the article. Commodities are grouped ordinarily either according to the origin of the material, or to the common purpose for which the product is adapted, or the degree of finish of the article, more than one consideration often determining the establishment of a group and the placing of the commodity into it.

It is clear that each classification presents some difficulties; thus the division of the goods into "animal products," "vegetable products," and "mineral substances" does not take cognizance of the fact that many articles consist of two or more components, some of which may belong to the animal, some to the vegetable and some to the mineral kingdom; it also groups separately articles serving the same end as long as they are of different origin. In a classification based on common use there is some difficulty in the case of commodities serving more than one purpose.

The increasingly detailed specialization which characterizes modern tariffs is due to several causes. It may be attributed to the desire: (1) to give different degrees of protection to various domestic industries; (2) to insure the proper working of the tariff without placing too much reliance upon administrative interpretations; another, and at times perhaps a more important reason, is the wish to give to those who are entrusted with the negotiation of commer-

cial treaties a better instrument for bargaining purposes. Minute classifications permit the confining of concessions to a comparatively limited number of articles and the use of each new concession as a means for obtaining what have been termed reciprocal advantages.

Greater specialization reflects also the growing diversity in fabricated commodities, which necessitates their assignment to different classes. But for this, under a system of specific duties, cheaper varieties in the same group of articles would be taxed at a higher rate in proportion to their value than the more expensive products. The degree of specialization may be realized if one considers that the German tariff of 1906 contains 946 items as compared with 387 items contained in the tariff of 1879; the Swiss tariff of 1902 contains 1164 items against 732 items in the tariff of 1891; a similar development may be found in the tariffs of other commercial nations.

A carefully constructed tariff is of great value in permitting a correct application of a country's commercial policy. If protection is the aim, a badly made measure may leave loop-holes permitting an entry of foreign goods which it is desired to keep out, and thus destroy the effect of the high customs duties imposed by the tariff. Faulty tariff construction also gives opportunities for obscuring the main issues involved in tariff legislation and for the manipulation of customs duties by unscrupulous politicians; it permits the subserving of national economic interests and the granting of special advantages to certain private enterprises.

The principles governing the construction of a tariff differ. A few countries declare that imports are free with the exception of those commodities which are enumerated in the tariff act as being subject to duty. Most countries provide a special "free list," it being understood that commodities not enumerated in this list are taxable. If an article to be imported is not mentioned either in the schedules of duties or in the free list, then it devolves upon cus-

toms officers (appraisers in the United States), to determine to which product contained in the tariff the article is "similar either in material, quality, texture or in the use to which it may be applied"; the rate of duty is assigned accordingly. Should the article not resemble any of those enumerated in the tariff, a general import tax is levied. According to our Tariff of 1922, all such articles, if raw or unmanufactured, must pay a duty of 10 per cent ad valorem, and if manufactured in whole or in part, 20 per cent.

Great Britain adheres to the principle that imports are free unless products are included in the tariff as taxable. Many European countries have resorted to a compilation of elaborate schedules in which they attempt to include every article which is likely to be imported; the tariff states whether the article is dutiable or not and in the first case assigns the rate of duty to be applied.

Tariff Terminology.—The commercial designation of commodities is adopted in a customs tariff in preference to botanical, chemical or any other scientific terminology. In order to be introduced into a tariff, commercial designations must be the result of general well-established usage and not merely of local, partial or personal application. In the absence of a commercial designation the common meaning of the word is the controlling factor.

If the merchandise is classified in the tariff by enumerations of its component materials, the material whose value is greater than that of any other single component material determines the rate of duty. If the rate is dependent upon the use of the article, the chief or predominant use governs; the use refers to that existing at the time the tariff act becomes operative.

Territorial Jurisdiction of Tariff Laws.—The territory within which the tariff law is effective usually corresponds to the political boundaries of the state enacting the tariff. Colonies are sometimes included in such boundaries, but more often they receive an independent treatment. In a few instances contiguous foreign territory has been incor-

porated into a customs tariff; such was the case of the Duchy of Luxemburg which was before the war a part of the German tariff system, and is now of the Belgian system; the Principality of Lichtenstein was a part of the Austro-Hungarian system, and Monaco of the French. On the other hand, Hamburg and Bremen, though politically connected with Germany and forming a part of her territory, were until 1888 independent of the German Empire in tariff matters. Trieste and Fiume were similarly not incorporated into the Austro-Hungarian customs union until 1891. The tariff of the United States applies to Alaska, Hawaii, and Porto Rico, but not to the Philippine Islands.

The Framing and Enactment of the Tariff.—In the United States both the enactment and the administration of the tariff law is vested in the Federal Government. In some federated states the tariff, while promulgated by the central legislative power, is administered by state authorities under the supervision of the central government; this was the case in pre-war Germany and Austria-Hungary, and still is the case in Brazil.

As one of the purposes of a customs tariff is the raising of revenue, in the United States it must originate, similarly to other revenue bills, in the House of Representatives. The usual procedure of the House is to refer matters pertaining to tariff legislation first to its "Committee on Ways and Means." The latter as a rule holds public meetings to which are invited all those chiefly concerned, to present their views regarding the changes which they deem it advisable to make in the existing tariff. As most of those who appear before the Committee are interested parties, their opinions are strongly colored by their particular desires. After a more or less lengthy consideration of the measure, the Committee frames a tariff bill and reports it to the House. In connection with the framing of the tariff of 1922 the Committee frequently consulted the Tariff Commission. It is regrettable that many of the Commission's findings were not embodied in the conclusions of the Commit-

tee. Many amendments to the tariff bill are usually proposed in the House by different representatives, most of these being dictated by the wishes of the representatives' constituents in various parts of the country. In order to obtain the majority necessary to insure the passage of the bill, many amendments are accepted without due consideration of the effects which they are likely to have upon general economic conditions. The bill after it passes the House is sent for approval to the Senate. The latter refers it to the "Committee on Finance" which seldom concurs in the action of the House, but proposes a number of amendments of its own. The Committee's report forms the basis of senatorial deliberations; the Senate subjects the tariff to additional changes and finally passes its own bill. The non-concurrence of the Senate with the measure of the House necessitates the reference of the matter to a joint committee of both branches of the Legislature. The members of this committee are expected to come to some conciliatory agreement. The compromise bill is then submitted to both legislative chambers; they usually approve it, thus making it, after the President affixes his signature to it, the tariff law of the land. As in the case of other bills, a tariff may be enacted without the President's signature or even over his veto; in the latter case a two-thirds majority in both houses in favor of the measure is required.

United States Tariff Commission.—The first Tariff Commission was created in the United States in 1882. This commission, though its work was of short duration, was instrumental in introducing many changes in the custom house procedure and in the administrative laws of the Treasury in so far as these deal with the collecting of customs duties. The Commission also recommended a reclassification of every schedule of the tariff. In its composition and in the views maintained by its members the Commission was a protectionist body. It was dissolved after the passage of the tariff act of 1883, which is considered by some, rather erroneously, as a commission-made tariff.

No efforts were made to reestablish the Tariff Commission for about fifteen years. An agitation in favor of such a body was started in 1907 when resolutions were adopted by the Merchants' Association of New York urging the need for a non-partisan tariff commission. A similar resolution was adopted at the beginning of 1908 by the National Association of Manufacturers. A National Tariff Commission Convention was held at Indianapolis in 1909, following which a bill contemplating the creation of a Tariff Commission was introduced into Congress. The bill did not pass; however, the Payne-Aldrich Tariff of 1909 contained a provision which enabled President Taft to appoint a Tariff Board. Section 2 of the Act conferred upon the President the power to employ such persons as he might deem necessary in order to secure information which would assist him and the officers of the Government in the administration of the customs laws. President Taft interpreted this clause as empowering him to establish a body of experts to conduct an impartial examination of the tariff. Such an interpretation of the clause met with much opposition both in Congress and outside of it, among those who wished to keep the tariff outside of any kind of investigation. The appointment of a Tariff Board was attacked by some as a usurpation of the financial powers of Congress. President Taft's Board was dissolved in 1912, the Democrats then in power having refused an appropriation for its maintenance.

During the brief course of its existence, the Tariff Board prepared reports on the cotton and wool schedule of the tariff, on Canadian Reciprocity, and on pulp and news print paper. One of the tasks which it undertook was an investigation into the costs of production of certain commodities at home and abroad.

The present Tariff Commission was created in September, 1916. It consists of six members, appointed by the President, by and with the advice of the Senate. No member of the Commission can engage actively in any other business or employment. The functions of the Commission are

purely investigational and advisory, the Commission not being authorized to formulate tariff schedules or to determine tariff policies, these matters resting entirely with Congress. One of the tasks which the Commission has set for itself has been the bringing together in compact and readily available form of all the data showing the development and location of industries affected by the tariff, the proportion of domestic demand supplied by these industries and by importations, and the conditions under which domestic and foreign products compete. The surveys will cover every commodity mentioned in the tariff; those which have been prepared so far show the grades and uses of the commodity, its domestic production with special reference to raw materials required and to sources of supply of these raw materials, and the process of manufacture, particularly from the standpoint of the adaptation of the industry to American conditions and to the use of highly skilled labor. The survey further considers the relation of domestic production to consumption in order to show to what extent the domestic consumer is dependent for his supply upon imports; it indicates from what countries the imports come. If a commodity is one in which an exportable surplus exists, the export trade is considered. The survey gives also the rates of duty under the various tariffs since 1883 as well as the decisions of the Treasury Department and the Court of Customs Appeals concerning the classification of commodities under the various laws.

Some idea of the scope of the Tariff Commission's work in connection with the preparation of these Tariff Information Surveys may be gained if one reflects that the number of surveys prepared on chemicals, oils and paints alone approximated 175, covering close to 500 separate chemical commodities; the surveys were published in the form of 28 pamphlets. The Commission submitted to the Committee on Ways and Means a plan for the reclassification of the chemical schedule, as it found some of the provisions of the Act of 1913 to be obscure in meaning, difficult to administer

and not in accord with commercial practice. The rapid development of chemical industries under the stimulus of the Great War made it desirable to recommend specific mention of about 100 chemicals which had heretofore not been designated in American tariff laws. In a similar way the Commission dealt with the other schedules contained in the Tariff Act of 1913.

Those who are familiar with the ways by which our tariff nomenclature and the grouping of commodities in our tariffs originated and developed, can fully appreciate the importance of this part of the Tariff Commission's work. It has to consider schedules which grew like Topsy, or, in some instances, stopped growing forty or fifty years ago. In discussing, for instance, the schedule on Agricultural Products the Commission has the following to say in its Annual Report for 1921: "the language of the existing tariff in general dates back at least to the Act of 1883 and in some cases to preceding acts. The phraseology of the existing tariff schedules upon agricultural products and provisions is frequently obsolete and not in accord with modern commercial practice or nomenclature. It contains conflicting provisions and duties that are based upon units of measure no longer in commercial use. Some provisions are rendered inoperative by others designed for different purposes, by defective phraseology. No apparent order or classification remains in the grouping of the products. Again many commodities not enumerated in the law have assumed importance in the import trade; these necessarily are assessed either under 'catch-all' clauses or under the rule of similitude at the rates levied upon products with which they are not comparable in value, use, or competitive characteristics."

In addition to the preparation of Tariff Information Surveys, the Commission has conducted many other important investigations; the results of these have been either published as reports and handbooks, or are available in mimeographed form; they cover such topics as International

Tariff Relations and Commercial Treaties, Colonial Tariffs, The Foreign Exchange Situation and Its Effect on Foreign Trade, Surveys of the Foreign Trade of Japan and of China, Free Ports and Free Zones, World Sugar Production, Effects on Imports and Exports of Preferential Transportation Rates. The Commission is conducting an inquiry into the extent and causes of unemployment in the United States in order to ascertain what relation, if any, exists between imports and unemployment; it has also completed the preparation of material for a projected Dictionary of Tariff Information.

Although not primarily a Service Bureau for the dissemination of tariff information, the Tariff Commission is always ready to make such confidential information as it has available to the industries interested.

The duties of the Tariff Commission have been enlarged by the Tariff Act of 1922, which provides that the action of the President under sections of the tariff dealing with unfair competition be based upon investigations made by the Commission.

The Commission's usefulness is somewhat impaired by the limited powers given to it by law, the activities of the Commission being confined to the gathering of facts relating to the domestic and foreign aspects of the tariff and to the reporting of these facts to Congress and to the President.

TARIFF SYSTEMS

During the period immediately preceding the outbreak of the Great War, most of the leading commercial nations were using the dual or multiple tariff system; countries which had one schedule of duties were Great Britain, Belgium, Holland, Switzerland and many Latin American republics. The United States enacted in 1909 a law similar in its main characteristics to a maximum and minimum tariff, but it has not applied the maximum schedule.

The single tariff has been abandoned by one country after another because of its lack of elasticity; a nation possessing

a single tariff applies the same duties to goods from whatever country they are imported; thus a single tariff does not enable the obtaining of special concessions as none can be offered in return. Dual tariffs were adopted principally as a bargaining device.

There are two kinds of dual tariffs: the maximum and the minimum, and the general and conventional.

The Maximum and Minimum Tariff System.—The main characteristics of a maximum and minimum tariff are that it contains two rates of duty both fixed by the legislative authorities of the country which enacts the tariff; the executive branch of the government is empowered to use the general or maximum rates against all countries and to grant minimum rates to those with which treaties may be concluded in order to receive reciprocal advantages or their equivalent in the form of " most favored nation " treatment.

It is claimed for this system that it insures greater stability in the treatment of home industries, by giving them a fixed degree of protection expressed in the minimum duty, which can be changed only through legislative action. Another advantage claimed for the system is that the minimum duties may be raised or lowered without having to wait for the termination of commercial treaties in force. Agreements do not bind the rates, but merely stipulate that the minimum duty will apply to the products of the country with which a commercial treaty has been concluded. Unforeseen events can thus be promptly responded to.

The use of the maximum and minimum system was attended in the past by many difficulties. It led to tariff wars and to the abandonment at one time or another of the main principle underlying this system, i.e., the framing of both the maximum and the minimum schedules by the legislative body of the country and the confining of the executive action to the application of either one or the other of the two schedules.

Spain was the first country to introduce maximum and minimum rates; her tariff of 1877 contained two kinds of

duties. She granted lower rates to those countries with which she had the "most favored nation" treaty relations and maximum rates to all others. However, it so happened that soon after Spain adopted the system, phylloxera destroyed the larger part of the French vineyards and, in order to obtain special favors for her wine industry, Spain granted to France rates in many instances lower than those contained in the minimum schedule. As the concessions given to France had to be extended automatically to all countries which were guaranteed the "most favored nation" treatment the result was a general lowering of a number of minimum rates. Special reductions were also made somewhat later in favor of Germany, Italy, Switzerland, Belgium, Sweden, and Norway; each modification in the tariff led to an all-round lowering of minimum duties. When, in the nineties, Spain attempted to remedy the situation into which she had drifted she became involved in tariff wars.

The adoption of a maximum and minimum tariff by France in 1892 resulted in an immediate tariff war with Switzerland, in order to terminate which France granted to Switzerland in 1895 several rates of duty lower than those contained in her minimum schedule. The experiences of Russia were similar to those of Spain and France. The enactment of maximum and minimum schedules in 1893 involved Russia in tariff troubles with other countries, particularly with Germany; these were ended by Russia's adopting three schedules: a conventional, the main beneficiary of which was Germany; a minimum, applicable to the "most favored nation" countries; and a maximum, to be used as a threat to compel concessions.

Countries which before the outbreak of the War used the maximum and minimum system were France, Spain, Portugal, Greece and Norway.

The General and Conventional Tariff System.—In a general and conventional system, a general tariff is enacted and made the basis for negotiating treaties with foreign

nations. Barring a few exceptions which are sometimes made with regard to particular articles, no lower limit is set on the rates which the administrative branch of the government may grant in return for equivalent concessions. This system was first adopted by Germany in 1891. She used her tariff of 1879 as a basis for negotiations with Italy, Switzerland, Austria-Hungary, Russia, Belgium, Roumania and Serbia. Each convention reduced rates on some commodities, and the combined reductions formed what became known as the conventional schedule of duties, to be applied automatically to all countries with which Germany concluded agreements containing the most favored nation treatment clause. The conventions were to expire in 1903; in anticipation of this, Germany passed, in December, 1902, a carefully prepared tariff in which she attempted to take cognizance of and to reconcile the somewhat divergent demands of the agricultural and the manufacturing classes of her population. The agrarian interests were recognized by the establishment of minimum rates of duty on rye, wheat, barley and oats. These rates could not be altered by the administration. The agrarian demand for minimum rates sufficiently high to offer protection was justified by the sponsors of such rates on the ground that Germany had ceased to export cereals and her farmers had become exposed to the competition of grain-producing areas of the United States, Argentina, and Russia. The needs of the manufacturers were taken care of by an up-to-date, scientific and minute classification of fabricated commodities. Treaties between Germany and most of the foreign countries were renewed in 1903, to remain in force until 1917. They were canceled by the World War.

The general and conventional system possesses what has been termed a strategic advantage in that it does not disclose to foreign negotiators how far a country may or will go in granting concessions from her general tariff; this gives an opportunity for the exercise of skill in bargaining for reciprocal advantages. In the case of a maximum and

minimum tariff, the minimum rate is fixed and is known to all engaged in negotiations; thus, according to those favoring the conventional system, representatives of a nation possessing maximum and minimum schedules come to the conference table with limited powers. Another advantage claimed for the conventional system is that it stabilizes the duties for the duration of the treaties, usually a matter of ten or twelve years. Nothing paralyzes industry and commerce more than uncertainty and fear of changes. Treaties remove the uncertainty as to the height of duties, and manufacturers and merchants of the countries united by means of commercial treaties can thus better adapt their activities to tariff conditions, knowing that no changes can occur in the rate as long as the treaties remain in force.

The general and conventional system was used before the outbreak of the war by Germany, Austria-Hungary, Italy, Russia, Switzerland, Serbia, Roumania, and Bulgaria.

Multiple or Preferential Tariffs.—The most conspicuous example of tariff preferences is to be found in the relationship between the British self-governing dominions and the mother country. Canada began giving preferential treatment to goods from the British Isles in 1897. Her tariff contains three schedules, the lowest or preferential schedule, which is granted to goods imported from the United Kingdom and from reciprocating parts of the British Empire, the intermediate schedule, which is applied wholly or in part to treaty countries, and the general or highest schedule, imposed on commodities from all other places. Australia established preference in favor of British goods in 1907; she enacted in 1920 a three-schedule tariff similar to that of Canada; preferential treatment to Great Britain is granted also by the Customs Union of South Africa, by New Zealand, and by some of the other British colonies.

For years Great Britian, while she was the beneficiary of colonial preferences, was not granting to her colonies preferential treatment. A radical change has taken place since the War. The British Finance Act of 1919 introduced prefer-

ences in favor of Empire goods; the most important of these articles were tea, cocoa, coffee, currants, sugar, tobacco, wine, and spirits. Key industry duties of 1921 are entirely waived to Empire products.

Besides the British Dominions, a considerable number of dependent colonies of Great Britain, France, Italy, Portugal and Spain possess preferential tariffs. The United States maintains the policy of preferential treatment with regard to the Philippines and Cuba. In accordance with the Cuban Reciprocity Convention of 1903, the products of Cuban soil or industry are granted a reduction of 20 per cent of the rates of duty chargeable by the United States against similar importations from other countries, in return for concessions to United States products of one-fifth to two-fifths of the general Cuban duties.

" Open-Door " Policy.—An " open door " policy is a policy which aims to prevent commercial preferences and discriminations and which attempts to insure equality of treatment to all foreign interests within a country. One of the most conspicuous examples of such a policy is the one which has been adopted and maintained with regard to China since the middle of the nineteenth century. Directed against the encroachments of those nations which might be tempted to use China's military and economic weakness for the purpose of obtaining special advantages, the " open door " policy found one of it staunchest advocates and supporters in the Government of the United States.

At the Conference of Berlin, held in 1885, there was established in Central Africa, " the conventional basin of the Congo," in which there was to be " freedom of navigation, freedom from transit duties and commercial equality in general." The Act establishing this " open door " treatment of the basin of the Congo was modified somewhat in 1890 and again in 1910. The revision of this Act made in 1919 provides for the continuance of the open door.

An " open door " policy prevails in many colonial possessions of European nations. The United States has

adopted such a policy for Samoa and for the Canal Zone. Under this policy a colony makes no distinction between the products of the mother country and those of other countries. An " open door " régime should not be confused with free trade; it is worth while, however, to note that as a rule, the rates in colonial " open door " tariffs are lower than those to be found in other colonial tariff systems, i.e., in the system of tariff assimilation and in that of preferential tariff.

Policy of Tariff Assimilation.—The policy of tariff assimilation exists when the duties levied in the mother country are enforced also in the colony and when the trade between the two units is free. The policy of assimilation has been followed by the United States with regard to Porto Rico and Hawaii; by France with regard to Algeria, Tunis, Madagascar, Indo-China, and a few other colonies; by Japan with regard to Formosa, Sakhalin and partly to Korea.

Tariff Legislation Since the Armistice.—Tariff legislation since the Armistice has been characterized by a trend toward the raising of customs duties. The main reason for this may be found in the high degree of economic protection which war conditions have given to both belligerent and neutral countries by checking the international flow of commodities. Governmental trade restrictions, diversion of the larger part of the world's merchant marine from its regular functions to those of transporting troops, munitions and war supplies, a ruthless submarine campaign, as well as a number of other factors, were all instrumental in bringing about in every part of the world an abnormal industrial situation. It was felt that a sudden restoration of the pre-war treatment of imports would be detrimental to national interests created or stimulated by the conflict. Upward tariff revisions were resorted to in order to keep out foreign goods. Such revisions were undertaken the more readily because one of the consequences of the War was the crystallization and intensification of the desire for national economic independence and self-sufficiency. The Great

War has shown the perils of relying, in case of national emergencies, upon foreign supplies; this has resulted in the adoption of policies, one of whose chief aims is the fostering of industries producing what have been termed "essential" commodities.

Amongst other reasons for increased tariff rates may be mentioned:

1. Desire to check the importation of luxuries by countries impoverished through the War and suffering from unbalanced budgets, heavy taxation and depreciated currency and exchange.
2. Desire to increase customs revenue.
3. Retaliation on the part of one country for tariff increases of another country.
4. Attempts by means of raising duties to stimulate negotiations for the conclusion of commercial treaties abrogated during or since the War.

The tendency to revise tariffs upward or to introduce highly protective measures in order to serve intensified national interests and to meet the conditions of after-war readjustment is exemplified by the policy of France, Great Britain, Italy and Spain, as well as that of many of the newly formed European states.

France, after having used for a time ad valorem surtaxes in addition to her specific duties, adopted, in the middle of 1919, a coefficient system which consists of announcing a coefficient of two, three, or more by which the basic tariff rate is to be multiplied until further notice. The periodic revision of the system of coefficients was entrusted to an Inter-Ministerial Commission, which has frequently during the past four years ordered the imposition of new coefficients or changes in the old ones on lists of particular commodities; partial revisions of the French tariff have thus been carried on from time to time without legislative action or sanction. The power of the Inter-Ministerial Commission to effect tariff changes lapsed on December 31, 1922.

A general revision of the French tariff was planned for the spring of 1923, but, owing to unsettled economic and political conditions, it was postponed.

A thoroughly revised tariff was enacted by Italy in the middle of 1921; this tariff raised duties considerably over the whole schedule of articles likely to be imported into Italy.

The British " Safeguarding of Industries Act," adopted in October, 1921, imposed a duty of $33\frac{1}{3}$ per cent upon the importation of foreign goods competing with " pivotal " or " key " industries or of goods offered for sale at exceptionally low prices due to depreciated currencies.

The states which before the War formed the Austro-Hungarian Empire, and which as such enjoyed the benefits of a free circulation of goods, set up after their division into separate political entities, customs barriers against each other, the aim being the raising of revenue and the obtaining of economic self-sufficiency as a corollary to political independence.

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CHAPTER VIII

COMMERCIAL TREATIES, RECIPROCITY AND RETALIATION

History.—A commercial treaty is an agreement between two or more states regulating their trade relations. Such treaties can be traced back to ancient times, a compact governing commercial intercourse between Rome and Carthage having been concluded in 509 B. C. During the Mediterranean era of commerce, through the thirteenth and fourteenth centuries, commercial treaties were used by Genoa, Venice, and other Italian city republics as one of the means for establishing trade relations among themselves and with other states. In the fifteenth century, after Constantinople was conquered by the Turks, there appeared a new form of treaty, the so-called "capitulations," or grants, made by the sultans of Turkey to Christian nations and conferring on Christian traders certain privileges in the Ottoman Empire. Capitulations differ from modern international agreements in that they lack the element of reciprocity; they do not contain mutual concessions. Two pacts, one concluded at the beginning and the other at the close of the eighteenth century, may be considered as the prototypes of modern commercial treaties.

The Methuen treaty of 1703 between England and Portugal removed prohibitions on the importation of English woolens into Portugal in return for preferential treatment of Portuguese wines by England, and the Eden treaty of 1786 between England and France contained provisions which led to the reciprocal lowering of many duties in the tariffs of both countries. The Eden treaty was of short duration,

friendly trade intercourse between England and France having been interrupted by the wars of the French Revolution and of the Napoleonic régime.

A movement toward reestablishing reciprocal relations between England and France became especially pronounced in the middle of the nineteenth century; it culminated in the conclusion of the Cobden treaty. This treaty, made in 1860, contained substantial reductions in tariff rates as well as a clause guaranteeing to both contracting parties the "most favored nation" treatment.

The Cobden treaty was hailed in many quarters, both in England and in France, as a step toward the ultimate adoption of free trade. Treaties similar in character to the English-French pact were concluded in rapid succession among most European nations; they all tended toward bringing about a more liberal treatment of imports. Hopes ran high that it was merely a matter of a few years before complete freedom of commercial intercourse among all nations would be established. The treaties themselves were termed by some, rather erroneously, "commercial treaties of the free-trade era."

A return toward high protection soon set in, many factors having conspired to bring about the reaction. The most important of these were the European wars which preceded the establishment of the German Empire in 1871, and the Civil War which raged between 1861 and 1865 in the United States.

One of the aims of customs duties is the raising of revenue, and revenue was sorely needed at that time in order to pay the expenses of costly wars. Under the guise of providing funds for the national treasury, many old duties were raised and new duties were established the main purpose of which was the granting of protection. High protection was the more readily introduced because of the spirit of extreme nationalism which swept over Europe with the formation of the German Empire. Nationalism has as its corollary a striving for industrial self-sufficiency, for economic aggran-

dizement. High duties became the order of the day, duties not only on manufactured commodities, but also on agricultural products; the latter were introduced because of the intensification of international competition in grain, due (1) to the bringing under cultivation of vast areas in Russia, the United States, Argentina and later in Canada, and (2) to the improvements in the means of transportation which made possible the movement at a comparatively low cost of large quantities of cereals from across the seas. England alone among the commercial nations remained true to the policy of free trade which she had gradually adopted after the abolition of the Corn Laws in 1844.

The liberal commercial treaties of the sixties were abandoned. But the need of foreign markets, as a source of both of supply and of demand, became too keen to permit too restrictive a policy. New reciprocal agreements, less liberal in their treatment of imports, were concluded. Attention was called to these treaties in the discussion of the maximum and minimum and of the general and conventional tariff systems.

Reciprocity Treaties of the United States.—The idea of reciprocity appears in the earliest pacts entered into between the United States and foreign countries; the treaties were general in character, attempting to establish in a vague way "the most perfect equality and reciprocity" as the basis of mutual intercourse and commerce. One of the most typical of such treaties was the one concluded in 1785 between the United States and Prussia. The treaties which followed in the beginning of the nineteenth century were much more specific than the earlier pacts; they dealt primarily with tonnage duties. In 1815 a convention was signed between the United States and Great Britain which applied to direct trade between these two countries; it stipulated that equal treatment with regard to port duties or charges be granted American and British vessels and cargoes in the ports of both countries.

The reciprocal treatment on the part of Great Britain

was not extended at first to include British possessions; during the following decade and a half, the United States repeatedly attempted to induce England to remove the discriminating duties placed upon American vessels engaged in the trade with British West Indies. In 1830 Great Britain finally agreed to open her West Indian ports to American ships on the payment of duties equal to those required of her own vessels. Conventions signed subsequently with other countries, and proclamations resulting from the same, nullified the discriminating features of our tonnage laws and placed foreign shipping on the same footing as our own.

The principle of reciprocity in connection with the modification of customs duties found its first expression in the commercial policy of the United States in 1854, when a treaty was concluded between this country and Canada. The Canadian treaty remained in force until 1866. Only one other agreement was entered into by the United States previous to the passage of the McKinley Tariff Act of 1890, the reciprocity treaty with the Hawaiian Government; the treaty was concluded in 1876 and it terminated in 1900 with the annexation of the Hawaiian Islands to the United States.

The McKinley Tariff gave the President the authority to impose duties on tea, coffee, molasses, sugar and hides, which were otherwise admitted free. He could impose duties on any of these products if they came from countries not giving, in his judgment, fair treatment to American imports. The mode of procedure adopted in the Act of 1890, in order to obtain what our Government considered reciprocally equal advantages, was quite different from that usually resorted to for the purpose of reaching commercial agreements. The usual way is not a threat to impose retaliatory duties but an offer to reduce existing rates. One of the main reasons why the United States departed from the customary method may be found in the lack of careful planning which characterized our tariff legislation in the

past. When the tariff of 1890 was being evolved there was no intention at first to use it as a means for entering into reciprocal agreements with other nations; the reciprocity clause of the act was "tagged on" to it after most of its other features had been decided upon, and the articles which were to be used for the purpose of obtaining foreign concessions were all placed on the free list; hence the retaliatory form which the reciprocity provision of the McKinley Tariff had taken.

Under the McKinley Tariff, treaties were concluded with the following coffee- and sugar-producing countries: Brazil, Dominican Republic, Spain (for Cuba and Porto Rico), United Kingdom (for British West Indies and British Guiana), Nicaragua, Salvador, Honduras, Guatemala, Germany, and Austria-Hungary. No treaties were concluded with the hide- and tea-exporting countries. However, the President did not find that any of these countries were discriminating against American goods so as to warrant his imposition of import duties on either tea or hides. The Wilson Tariff of 1894 contained no reciprocity clause, and with the promulgation of this Act all treaties then in force were discontinued.

The reciprocity idea was revived in the Dingley Tariff Act of 1897; this Act had three provisions pertaining to the negotiation of reciprocal agreements. One of these was similar to the provision of the Tariff Act of 1890, in that it empowered the President to proclaim penalty duties on certain products when imported from any country which, in his opinion, was not treating American goods "in a way reciprocally equal and reasonable." The commodities selected were coffee, tea, tonka beans and vanilla beans. No agreements were negotiated under this provision of the law.

The Tariff Act of 1897, in addition to providing for penalty duties, introduced also the principle of special reductions in the regular tariff rates in return for "reciprocal and equivalent concessions" of other nations. The articles on which the President could grant special reductions without

ratification by the Senate were argols, brandies, sparkling and still wines, paintings, and statuary. Agreements were concluded with France, Portugal, Germany, Italy, Switzerland, Spain, Bulgaria, Great Britain and Holland. The United States granted these nations lower rates on the enumerated commodities in return for all or part of the minimum or conventional rates already enjoyed by all the "most favored" nations. Only a few duties were reduced by foreign countries, through agreements with the United States, below the rates which they had already in force on the products of other countries.

The third bargaining provision of the Dingley Tariff empowered the President to make commercial arrangements with other nations by reducing, in return for equivalent concessions, the regular tariff schedule not more than 20 per cent; the President could also by agreement transfer to the free list, or agree to retain thereon, certain specified articles coming from any country making reciprocal concessions. In order to become effective, treaties negotiated under this provision had to be ratified by the Senate. A number of such treaties were negotiated but they were not ratified by the Senate and thus never became effective.

Arguments for and against Concessional Tariff Treaties.—The leading arguments presented in favor of exchanging exclusive tariff concessions by means of commercial treaties are:

(1) They tend to counteract the rigidity of the protective system of one's own country as well as of other countries; they introduce an element of mutuality in concessions, and thus serve to promote friendly commercial intercourse between nations united by means of such treaties.

(2) They help to conserve a country's natural resources by opening the way for the importation of foreign raw materials, such as lumber, iron ore, coal.

(3) They permit discrimination between friends and foes.

(4) The possibility of importing foreign materials gives manufacturers an opportunity to have command over a greater variety of products which they need in their processing work.

(5) Foreign markets are created for commodities which can not be absorbed at home; this insures a more continuous employment of the country's laboring forces and industrial equipment; under normal conditions foreign trade is largely an exchange of goods against goods, an increase of imports leads, therefore, to greater opportunities for exporting.

(6) Imports are stimulated without unnecessarily endangering home industries, concessions under reciprocity agreements being granted only after a careful consideration of their probable effect upon the economic conditions of the country granting them; a stimulation of imports means earnings to transportation companies engaged in the carrying of goods across the sea and in their distribution inland; it means profitable work for importers, warehousemen, bankers and all others who handle and finance shipments and last, but not least, it means lower prices to consumers on articles which are brought into the country at a lower rate of duty.

The opponents of concessional tariff treaties contend that:

(1) They are undesirable if they lead to special and exclusive concessions between two nations regardless of the effect of these concessions upon other nations; such treaties are breeders of commercial jealousies and retaliations on the part of nations who are or deem themselves to be injured by them.

(2) Bargaining is unnecessary as a means of establishing and maintaining equality in the liberal treatment of imports; better results may be achieved through autonomous legislative action.

(3) Freer importation of raw materials does not conserve domestic resources; it leads to a more ruthless exploi-

tation of such resources in order to meet foreign competition. The argument was used pro and con during the discussion of the proposed reciprocity agreement between the United States and Canada; it was especially applied to the probable effect of the agreement upon the sources of supply of wood-pulp, which is consumed in such large quantities by the paper-making industry of the United States.

(4) Final consumers benefit very little if at all from commercial treaties; if rates are reduced, those who profit are manufacturers and intermediaries.

The opponents of reciprocity agreements in the United States contend also that as far as such agreements were attempted by this country they proved a failure; our reciprocity treaties with Latin-American republics neither increased our exports to these places nor created a feeling of greater friendship toward us; there is no reason to believe that our experiences of the past will not be repeated in the future.

The "Most Favored Nation" Clause.—A treaty containing the "most favored nation" clause places the two nations which are parties to such a treaty in as advantageous a position toward each other as is the position of each toward any other nation. Prior to the War the American interpretation of the "most favored nation" clause was a conditional one, while the European interpretation was unconditional; the difference between the two interpretations hinges on the treatment which should be accorded a country under the "most favored nation" clause if, subsequent to the conclusion of a treaty with this country, an agreement is reached with another country which grants the latter greater favors or privileges than have been received by the first. The American view in the matter was that, if greater concessions were extended gratuitously, they should apply also to the first country, but if they were granted expressly in return for equivalent advantages on the part of the second country, then the first country in order to participate in

such advantages should give in return additional similar or equivalent privileges. This distinction did not exist in the European interpretation of the " most favored nation " clause; all new concessions, whatever their nature or however they were arrived at, had to be extended automatically to all countries with which treaties containing the " most favored nation " clause had been previously concluded. The advantage of the unconditional form is that it generalizes concessions made by one state to another; it obviates the necessity for special bargainings in order to maintain equality of treatment. The post-war movement has been in the direction of reversing the attitude of the governments. Many European nations have adopted a policy of special bargaining while the United States now seems to favor a generalization of concessions.

New treaties thus far concluded on the Continent of Europe, in place of the old ones abrogated during the War, do not, as a rule, contain the " most favored nation " clause; they carry provisions for reciprocal concessions on products of particular interest to the countries entering into an agreement.

RETALIATION

Retaliatory Duties.—Retaliatory duties are duties raised above the rates stipulated in the regular tariff, the aim of the increase being not the obtaining of larger revenue or the affording to national industries of a greater degree of protection but the infliction of punishment on certain countries whose commercial policies are deemed objectionable.

Retaliatory duties may be promulgated because one country objects to what it considers exorbitant rates in the tariff of another country, as was the case of Austria-Hungary, which in 1886 passed retaliatory measures against Roumania; or they may be due to a dissatisfaction caused by a feeling that other countries have been treated more favorably, as was the case of the tariff recriminations between Russia and Germany in 1893–1894. Retaliation has also

been resorted to when attempts to negotiate commercial treaties have failed because of a refusal of one country to meet the requests of another. In this class belong the tariff wars between France and Italy (1888–1892), France and Switzerland (1893–1895), Germany and Spain (1894–1895), and Norway and Spain (1912). Before resorting to retaliation, a nation should take into consideration the fact that, as a rule, countries enact tariffs, conclude preferential agreements, and obtain concessions not for the purpose of injuring other countries but in order to obtain advantages for themselves. One of the errors and dangers of retaliation is that it assumes the existence of hostility, where ordinarily none exists; by assuming it and acting accordingly one nation engenders bitter feelings in another. Retaliation breeds retaliation; it irritates the national sentiments of those against whom it is directed; it leads to tariff wars; and a tariff war, though devoid of bloodshed, is, like any other war, the most wasteful and the least satisfactory method of settling differences and of adjusting real or imaginary grievances. The tariff wars of the past have proved the fallacy of adopting retaliatory measures; the country which initiated such measures had usually to abandon them and seek reconciliation after many hardships had been inflicted on both countries engaged in the struggle. Carried to its logical conclusion, a tariff war is a precursor of armed conflict.

Boycotts.—A measure which has been resorted to in recent times for purposes of retaliation, and which has attracted a great deal of attention because of its endorsement by the League of Nations covenant, is the trade boycott. A national boycott is the refusal of one nation to trade with another because the first nation is displeased with what it considers hostile political or commercial acts of the second.

Boycotts in foreign trade are of recent origin. One of the earliest boycotts on record was that carried on by China against American goods in 1905. The boycott was adopted

as a protest against Chinese immigration laws enacted by the United States. A boycott against Austrian merchants was declared in many parts of Turkey in 1908 after the annexation of Bosnia and Herzegovina by Austria-Hungary. A similar boycott took place in 1910–1911 against Greek goods, on account of the Cretan question, and in 1911–1912 against Italian goods, during the Tripolitan war.

A conspicuous example of boycotting was the intermittent Chinese boycott of Japanese products (1913–1921), after Japan succeeded in imposing upon China a treaty containing many provisions which the latter country resented. The boycott was not the result of a governmental decree or proclamation, but of concerted action on the part of the Chinese people themselves who, in their capacity as consumers and traders, barred Japanese goods.

The first proposal to use boycotts as a means of punishing a nation for a breach of international law, because of failure to comply with an arbitration award or with the stipulations of an arbitration treaty, was made at the World Peace Congress held in Ghent in 1912. The plan was defeated; the opponents of the measure objected to it on the ground of its being unjust in so far as it would inflict punishment on individuals. The Paris Economic Pact of 1916 contemplated the boycotting of enemy countries. A later development was the proposition to employ boycotts as a means of coercing a nation to abide by the decision of the Council of the League of Nations, the boycott to consist in the denial of foodstuffs and raw materials to such a nation and the refusal to buy its goods.

Boycotts cannot well be defended on either economic or political grounds. Economically, a boycott is a double-edged weapon. The more successful it is, the greater the impoverishment which it inflicts on the nation discriminated against, and the worse, as a rule, are the economic effects upon all other nations, including the nation which uses it. A boycott means the damming of the international flow of commodities, the prevention of a part of the world's

producers and consumers from participating in the world's commerce, under a delusion that they alone are the sufferers thereby. Nations which expect to enrich themselves through the impoverishment of other nations are bound to have their dreams rudely shattered, and the sooner they realize this, the better for all concerned.

Politically, boycotts are a menace to the peace of the world. They are essentially war measures, breeders of animosity and of resentments, forerunners of military conflicts. This was clearly understood by many persons even during the struggle against the Central Powers when passions were running high because of the ruthlessness with which Germany was conducting her military campaign. Thus, after the passage of the Paris Economic Resolutions of 1916, contemplating the after-war boycotting of enemy countries, the British Labor Party, at its Trade Union Congress held soon afterward, declared itself as utterly opposed to these resolutions. By a vote of 2,339,000 against 278,000, the Congress declared in part as follows:

"It is clear that the Paris Resolutions, so far as they are intended to form the basis of a policy of organized, systematic commercial and economic boycotting which aims at the destruction of German commerce, must be strenuously opposed. They would provide a new standing menace to a healthy internationalism and to the future peace of the world. . . ."

"Labor is convinced that a world peace which is broadly based on the expressed will of free democracies can not be assisted by a temporary or perpetual economic war. . . ."

Both during the Great War and since the conclusion of peace, there has been a division of opinion in France, England, the United States and other countries as to the advisability of resorting to boycotts; while the measure received governmental sanction in the Paris Pact of 1916 and was later included in the League of Nations covenant, among its opponents may be found some of the leading economists

and some of the most representative industrial and commercial organizations in the countries which were allied against Germany.

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CHAPTER IX

CUSTOMS ADMINISTRATION. BONDED WAREHOUSES, DRAWBACKS AND FREE ZONES

Functions and Powers of Customs Officers.—One of the main functions of customs officers is the securing of lawful revenue from importation of foreign merchandise. In the discharge of this function they appraise and levy duties on goods which enter the United States and they work for the suppression and prevention of smuggling, undervaluation and other frauds. The duties of customs officers include also the documentation of American vessels, the exclusion of foreign vessels from coastwise traffic, the collection and deposit of duties, fees and penalties accruing under the customs and navigation laws, and the compilation of returns of the commerce, navigation and immigration of the United States.

The law confers upon customs officers powers of search, seizure and arrest; they may stop vessels, coming from foreign ports, board them and search them, using force, if necessary; they may also enter any premises other than dwelling houses at any time of night or day. In case of foreign vessels protected by treaty, notice of an intended search must be given to the proper consul, and in case of dwelling places searches are allowed only in the day time; search warrants must be obtained from the justice of the peace or from other courts having jurisdiction.

Any person interfering with customs officers in the discharge of their duty or offering them bribes to influence their acts is liable to severe penalties. All seized property must be transferred into the custody of the collector and

proceedings must be instituted against such property. In case of perishable commodities a summary sale is usually directed pending the outcome of the suit.

Appointments to and Removals from Service.—Appointments to the principal positions in the custom house service are made by the President, with the advice and consent of the Senate. When an appointment is made, a notice of it is sent by the Secretary of the Treasury; this notice is accompanied by forms for bond and oath. Subordinate officers, such as deputy collectors, inspectors, weighers, clerks, are nominated by the principal customs officers, who send the names of the candidates for approval to the Secretary of the Treasury. Selections are made from among those who pass successfully a civil service examination and who can produce proof of good conduct and are in a fit physical condition. The age limit, except for those discharged from military or naval service, is from twenty-one to fifty-five years. Only one member of the same family is eligible. The principal officers are expected to keep a record of the work of subordinates and recommend them for promotion in accordance with zeal and efficiency displayed in the discharge of duties.

In case of misconduct or other delinquency of a subordinate officer, written charges are filed against him and he is given an opportunity to defend himself. Both the charges and the defense are forwarded to the Secretary of the Treasury who decides whether the officer should or should not be removed. In case of minor offenses an officer may be suspended for thirty days without pay. The principal officers may be removed from service only by the President.

Classification of Customs Officers: Secretary of Treasury.—The chief customs officer is the Secretary of the Treasury. In him is vested the administration of the tariff and the supervision over the collection of duties. The Secretary of the Treasury prescribes forms of entries, oaths, bonds, and other papers, as well as rules and regulations necessary for the proper execution of the customs laws. All customs

officers must carry out his instruction, and in case of any difficulty arising regarding the true construction or meaning of any part of the revenue acts his decision is conclusive and binding. The actual work of administering the customs laws is vested in the Assistant Secretary of the Treasury, who is the head of the Division of Customs in the Treasury Department.

Collectors.—The collector has charge of his customs district. He receives the reports, manifests, and entries of all ships and of all the goods imported in them, grants all permits for the unlading and delivery of merchandise, estimates the amount of duties payable and receives all moneys paid for such duties; he provides, with the approval of the Secretary of the Treasury, storehouses for the safe keeping of goods subject to appraisal, etc. Every collector may be authorized by the Secretary of the Treasury to employ deputy collectors to assist him in his work.

Comptrollers of Customs.—In some of the larger customs districts, where the extent of business makes the daily accounting to the Treasury Department impracticable, comptrollers of customs, known before the passage of the Tariff of 1922 as naval officers, have been provided; they act concurrently with the collector in the estimation of duties and in the signing of permits. Comptrollers of customs receive copies of all manifests and entries and keep a separate record of all transactions. This permits them to certify to the correctness of the collector's abstracts of duties and of his accounts of receipts, bonds and expenditures.

Appraisers.—Appraisers examine and appraise all imported merchandise which is designated for that purpose by the collector; the work is often done by assistant appraisers whose reports the appraisers, before submitting them to the collector, revise and correct. For a proper discharge of their duties, appraisers must have a thorough knowledge of the nature, qualities, grades, uses and textures of the various articles which pass through the custom house as well as an extensive acquaintance with market values of

goods in foreign countries, with freight and insurance rates, and with many details of tariff classification and administration. Appraisers' decisions as to the nature of the goods, in accordance with the tariff nomenclature, are made the basis of assessment of duty. As the progress of invention and the improvements in industrial arts and sciences throw numerous new articles on the market almost daily, the difficulty of the task confronting the appraisers may be easily understood. Their opinions are necessarily often based on mere conjectures; in case of doubt as to the nature or quality of goods, they submit samples with their findings to collectors or to the Board of General Appraisers for advice. In order to secure uniform valuations and the charging of equal duties on identical merchandise in all the customs districts of the country, reports and samples of such merchandise as can be safely mailed are forwarded regularly to the Board of General Appraisers. All samples, except those of perishable goods, are filed with proper notations in each customs district.

United States Board of General Appraisers.—The Board of General Appraisers was created by the Customs Administration Act of 1890. It consists of nine men, and is subdivided into three sub-boards having three general appraisers in each.

General appraisers consider appeals from decisions of local appraisers and collectors of customs regarding classifications of imported goods or their foreign value. They are located at New York, but when occasion demands, they hold sessions at other chief ports of the United States.

Examiners.—Local appraisers are assisted by examiners to whom they assign the work of comparing the articles contained in the shipment with the description of these articles in the invoice. Many of these examiners are experts in one or another class of merchandise. The report of the appraiser to the collector is usually based on the examiner's findings; it specifies the exact nature of each article examined and indicates the rate of duty applicable to it.

Surveyors.—The surveyor is the chief outdoor executive officer of the port. He superintends and directs all inspectors, weighers, measurers, gaugers, and laborers; he inspects the arriving vessels and reports to the collector their names as well as the names of their captains and of the ports from which the ships arrived. He assigns inspectors to each vessel, supervises the discharge and lading of cargoes, examines whether the delivered goods correspond with the permits and looks after the correctness of weights and measures used in the ascertainment of duties.

Inspectors of Customs.—Inspectors of customs are classified as district, boarding, coast, frontier, night, and discharging officers; to each of these are assigned specific duties. Thus, district inspectors have general supervision of all vessels coming into their districts and report all discovered violations of the revenue and navigation laws and regulations to the surveyor. They seal the hatches and openings of all vessels coming from foreign countries and retain custody of the ship until relieved by discharging officers; if no assignment of such officers is made they supervise the unloading of cargo without further notice. District inspectors are entrusted with the supervision of shipments of merchandise exported with the benefit of drawback or refund of duty. Coast inspectors protect the interests of the revenue with respect to goods which may be landed from wrecked or stranded vessels; they proceed to the place of the wreck and take charge of the goods which may be brought to land. Night inspectors are appointed for the purpose of preventing smuggling; they do not permit the landing of merchandise from any vessel between sunset and sunrise unless the same is done by proper authority and under supervision of an inspector; they protect merchandise from unlawful removal from bonded warehouses and, in case of reasonable cause for suspicion, search any person leaving a vessel or a warehouse that is in their custody.

The duties of weighers, gaugers, measurers, are indicated in their names and need no elucidation.

Special Agents.—In addition to the regular customs officers, the Secretary of the Treasury may appoint special agents for the purpose of examining the books, papers, and accounts of various custom houses, also for the detection and prevention of frauds. These officers are assigned to such special agency districts as the Secretary may from time to time direct.

Customs Districts.—The number of customs districts in the United States was reduced in 1912 from 126 to 49. The same reorganization law abolished the heretofore existent classification of "ports of delivery" as distinct from ports of entry. Each customs district contains one or more ports of entry. The main divisions of a custom house established at each port of entry are: a marine division, an entry division, a bonded merchandise division, a law division, a drawback division, and a liquidation division.

Customs Regulations.—The customs of the United States are administered in conformity with hundreds of rulings, some of which may be traced back to the eighteenth century. This makes the carrying out of the various provisions of the tariff act often difficult and at times a very perplexing matter. A thorough revision and a codification of our customs regulations is highly desirable. It would lead to an elimination of many defects and to a reconciliation of many conflicts which are inherent in a system lacking coordination of its various parts; it would also help to introduce greater exactness, expedition and economy into the service, and would decrease the number of disputes which arise at present between importers and customs officials. Many of these disputes are due to lack of knowledge on the part of importers of the various legislative amendments and administrative rulings which guide officials in the making of their decisions. A codification of our customs laws has been recommended by the present Tariff Commission, which submitted to the Ways and Means Committee of the House of Representatives a report on the matter. The report, after stating what the existing laws are, suggested the

necessary revisions in order to eliminate contradictions, duplications and ambiguous phraseology.

BONDED WAREHOUSES

Bonded warehouses are used for storing goods pending the payment of customs duties or internal taxes. They are also used to store taxable domestic merchandise intended for exportation or foreign goods awaiting reexportation. Free goods, if included in a consignment of dutiable commodities, must also be stored in a bonded warehouse, unless they can be easily separated from the wares subject to duty.

Ownership and Operation of Bonded Warehouses.—The question of ownership and operation of bonded warehouses has been differently solved by various nations; in the majority of cases such warehouses are owned and run by private concerns under strict governmental supervision. In France and Italy, where many warehouses are privately owned, the control of the bonding business is largely concentrated in public or quasi-public institutions. In Germany one finds both public and private warehouses. In England the bonded warehouses are, as a rule, owned by private individuals or by companies and they are controlled by such bodies as the Port of London Authority, the Mersey Docks Harbor Board, etc. In the United States the warehouses are, with few exceptions, private enterprises, the Government exercising its control over them through customs officers. No warehouse can be opened for the transaction of business without the presence of a governmental official and it must be closed before the official leaves.

The early customs laws of the United States had a provision granting importers the privilege of long credits in connection with their payment of customs duties. This liberal provision was replaced in 1842 by a requirement that payments of duties be made in cash. The change imposed heavy burdens upon importers, and in 1844, in order to

remedy this, the bonded warehousing system was introduced. This system permits the postponement in the payment of duties or taxes until such time as best meets the requirements of the owners of the goods. No limit is set in England to the time within which the goods must be withdrawn from the bonded warehouse; in the United States the limit is three years, at the expiration of which time the wares are subject to sale by the Government.

Classification of Bonded Warehouses in the United States.—There are at present seven classes of bonded warehouses in the United States:

Class I. Warehouses owned or leased by the Government and used either for the storage of merchandise undergoing examination by the appraiser or for the storage of seized and unclaimed goods. The first are known as "Public Stores," the second as "General Order Stores."

Class II. Importers' private warehouses, for the storage of merchandise owned by the proprietor of the warehouse.

Class III. Warehouses for the general storage of imported goods.

Class IV. Yards or sheds for the storage of heavy and bulky articles. Such yards must be enclosed by substantial fences, not less than 12 feet in height.

Class V. Bins or parts of buildings or of elevators to be used for the storage of grain. The bonded portion must be separated from the rest of the buildings in accordance with the regulations prescribed by the Secretary of the Treasury for the security of the revenue.

Class VI. Warehouses for the manufacture in bond, solely for exportation, of articles made in whole or in part of imported materials or of materials subject to internal revenue tax; for the manufacture for home consumption or exportation of cigars made wholly of tobacco imported from a foreign country; also for the storage and cleaning of imported rice intended for exportation.

Class VII. Warehouses for the smelting and refining of

imported ores and of imported crude metals for exportation or for domestic consumption.

In some of our ports, as in Washington, D. C., Cleveland, Albany, and Richmond, customs house premises are used for storing imported goods in bond.

Regulations Governing Bonded Warehouses.—Buildings used as bonded warehouses must comply with certain requirements as to safety and soundness; their owners are placed under bond in amounts determined by customs authorities. The Government does not interfere in the fixing of storage rates or insurance premiums by the warehousemen, nor does it tell importers what warehouses they should use. The business is conducted on a competitive basis; competition, however, is not as keen as it is in the ordinary warehousing industry and the storage charges are accordingly somewhat higher.

Goods may be withdrawn from a bonded warehouse with little delay, as the duty to be paid is usually determined when the merchandise is placed in bond.

No responsibility is assumed by the Government for the safety of the goods while they are in bond; on the other hand, the Government enforces the payment of duties should the merchandise be stolen from the bonded warehouse.

DRAWBACKS

A drawback is a refund in whole or in part of duties paid upon imported goods when these are reexported. There are two kinds of drawbacks:

(1) Drawbacks allowed on merchandise which is exported in the same condition as it was imported; in order to be entitled to this drawback goods must leave the country in their original packages, without having undergone any changes as to quantity, quality, or value; they must also be reexported within three years from the date of importation.

(2) Drawbacks allowed upon imported raw materials used in the manufacture of articles exported from the coun-

try. When the exported goods are partly made from domestic materials, the imported materials in order to be entitled to a drawback must so appear in the completed articles that their quantity or measure may be readily ascertained.

Drawbacks are also allowed on domestic alcohol used in the preparation of medicinal and toilet articles, including perfumery, when such articles are exported; the drawback is equal to the internal tax paid on the alcohol used.

The party intending to export merchandise "with benefit of drawback" must file with the collector of the port an entry carefully describing the articles on which the drawback is requested, stating by whom, how, where, and when they were imported, and naming the conveyance in which and the place to which the same are to be exported. A surveyor inspects the merchandise and if it agrees with the description, he directs and supervises its loading on board ship. Before the clearance of the exporting vessel, the exporter must give bond in a sum equal to double the amount of the drawback for the production of proofs of the delivery of the merchandise outside the limits of the United States.

When drawbacks are granted, 1 per cent of the duty originally paid is retained by the customs authorities, presumably in order to meet the expenses of administering the refund of duties.

The aim of drawbacks is the encouragement of exports of manufactures by allowing the free use of foreign raw materials when the goods are manufactured for export trade.

Between $5,000,000 and $6,000,000 is paid annually by the United States in drawbacks. Considering the volume of our export trade, this is not a large amount.

In discussing the drawback system, the Tariff Commission in its report on free zones states: "So complicated is the procedure in making claim and proving the identity of the merchandise that many producers do not find it worth while to apply for the drawback at all."

FREE PORTS AND FREE ZONES

History.—Free ports are not new. They came into existence at the beginning of modern history. The sudden growth of maritime commerce, due largely to the discoveries and inventions of the fifteenth century, made their introduction desirable as a means for facilitating ocean trade. They were especially welcome at a time when numerous tolls and taxes were levied on traffic by the small kingdoms and principalities into which fifteenth-century Europe was divided. Italy was the first country to adopt free ports, most of her leading commercial centers having become such ports during the sixteenth century. Two cities were made free ports in the second half of the seventeenth century, Altona, in Germany, in 1664, and Marseilles, in France, in 1669. Trieste and Fiume, which before the Great War belonged to Austria-Hungary, became free ports in 1819. The Hanseatic towns of Lubeck, Bremen, and Hamburg were practically free ports until Lubeck joined the Tariff Union of the North German Confederation in 1867 and Hamburg and Bremen were incorporated in the Union of the German Empire in 1882.

With the concentration of state activities and with the growth of national consciousness, the ports of a country were not permitted to remain long outside of the jurisdiction of the country's tariff law; free zones or free districts within ports and bonded warehouses were substituted for free ports. Thus a free zone was created in Hamburg when that city joined the German Customs Union. This zone gave Hamburg ample facilities for carrying on its centuries-old merchandising activities.

In the Orient the two oldest free ports which continue to function as such are Hong Kong and Singapore.

Definition of a Free Zone.—A free zone is a place within a port, effectively separated from the rest of the harbor, into which place foreign goods may be brought, handled and from which they may be reexported without having to

submit to any customs formalities. Except for the freedom from the customs administrative control, both ships and merchandise are subject in a free zone to all laws and regulations and all tonnage and other taxes which apply in the non-free ports of the country.

Recent Development in the Establishment of Free Zones.—A free zone which was established recently, and which has proved to be very successful, is the free zone of Copenhagen. It was created in 1892 and is operated by an organization founded expressly for that purpose, the Copenhagen Free Port Company.

Spain authorized the establishment of free zones in Cadiz in 1914, in Barcelona in 1916 and in Bilbao and Santander in 1918. So far little has been done toward improving the districts under the privilege; there is little incentive to do so as the Spanish Government reserved the right to revoke the free zone privilege at any time and it did not offer to those who would be willing to undertake the work the security of a term grant. Sweden opened a free zone at Stockholm in 1919 and later created similar zones at Gothenburg and Malmö. Norway has a free zone at Christiania, while Portugal authorized one for Lisbon.

The desirability of the establishment of free zones or free ports in the United States has given rise to much discussion in this country, particularly during the past few years. The idea was under consideration about fifteen years ago when Mr. Shaw, at one time Secretary of the Treasury, outlined a plan for the creation of bonded districts to be used especially for the purpose of carrying on manufacturing for export. The discussion of the subject was soon dropped and the free zone idea did not revive until after the conclusion of the late War.

The United States Tariff Commission, which in 1917 and 1918 investigated the matter, reported favorably on the proposition. Lately free zones have been endorsed by the National Foreign Trade Council, the Chamber of Commerce of the United States, by a number of other national

trade bodies, as well as by most of the leading local chambers of commerce. Bills authorizing the Secretary of Commerce to allow the establishment, maintenance and operation of free zones by states, municipalities or other public agencies were introduced into the House and the Senate; so far Congress has taken no action on any of these bills.

The bill which is at present before Congress does not include manufacturing among activities permissible in a free zone. This is not a very serious ommission, as free zones, because of limitations of space and other disadvantages, such as restrictions placed on the movements of employees, difficulties of providing power, etc., have never developed and are not likely to develop into large manufacturing centers. On the other hand, the bill is very explicit in providing that merchandise preparatory to its reexportation may be "broken up, repacked, assembled, distributed, sorted, refined, graded, classed, mixed with foreign or domestic merchandise or otherwise manipulated."

Arguments in Favor of Free Zones.—The advocates of free zones advance the following arguments in their favor:

1. The possibility of bringing in goods without going through the formalities, delays, and annoyances attendant upon the clearance of merchandise through the custom house tends to make out of a free port, given a favorable geographic location, a consignment market. The existence of such a market is of great value to domestic manufacturers who can choose materials and supplies from every part of the world. They can cover their needs at any time and in any desirable quantity, usually at a price lower than they would have to pay were it not for the existence of the consignment market.

2. Free ports increase a country's trans-shipment or reexport trade, which is beneficial, as it provides profitable employment for a great many of the country's industries, such as shipping, warehousing, merchandising, banking, etc. Reexport trade is facilitated because of the rapidity with which ships may enter a free zone and load or un-

load their cargoes; also because in such a zone goods may be reconditioned, graded, cleaned, mixed, repacked and prepared in other ways for the markets of their final destination. In a bonded warehouse, merchandise can not be manipulated except when such action is necessary in order to prevent deterioration. Because of this our merchants are effectively blocked from participating in a large part of the world's intermediary activities. A couple of examples will suffice to make clear the point in view. There is a large demand for Swiss and French laces in the South American markets; under present conditions it is impossible for our merchants to engage in the reshipment of such laces from here; they come to us packed in large and heavy boxes, entirely unsuited to South American trade, because the duty there is as a rule assessed on the gross weight of the imports and the transportation facilities require small containers. Rice, which is first marketed in the form of paddy, requires husking, polishing, grading and sorting. This can not be conveniently done in our ports, and so rice intended for South America is sent from the Orient all the way over two oceans to the free port of Hamburg to be prepared there for final consumption and then shipped back across the Atlantic to South America. What is true of rice is also true of many other products which require cleaning and conditioning before they are fit for the western markets. Such wares are prepared for the world trade in merchandising centers.

3. Free zones reduce the amount of work of the customs officers whom they relieve from the necessity of handling goods intended for reexport; free zones are easy to administer from a custom house standpoint; the delimitations of the free zone area and its effective separation from the rest of the port make the safeguarding of customs revenue and the prevention of smuggling and other fraud a comparatively easy matter.

4. The installation of free zones gives a stimulus to the improvement of port and terminal facilities.

5. A free zone usually provides return cargoes for vessels which bring goods into a country; this permits the quoting of lower freight rates, and the establishment of more direct, regular and frequent sailings between the free port and many other parts of the world.

6. The existence of bonded warehouses does not make free zones unnecessary; before being put into a bonded warehouse, goods must first be submitted to examination, assessment, and liquidation of the entry. The compliance with all the customs formalities takes time; it gives rise to many annoyances, both when the goods are entered and when later it may become necessary to remove them from one bonded house to another. The greater expense attached to the keeping of the goods in a bonded warehouse is also an item of some importance in making the system less desirable than that of free zones.

Arguments against Free Zones.—The opponents of free zones argue that:

1. The geographic location of the principal American ports differs materially from the location of such ports as Antwerp, Hamburg, London, Copenhagen or Singapore; these are situated at the converging and redistributing points of different trade routes while our ports are not so located. Much of the European entrepot trade is also due to the fact that Europe is split into many independent national units, a condition which does not exist here and which would have made the creation of free zones on the North American Continent much more desirable than it is at present. New York is now, without having a free zone, a consignment market for many goods shipped to different parts of the United States, just as London and Antwerp are consignment markets for different parts of Europe.

2. The existing facilities provided by bonded warehouses, bonded manufacturing warehouses and drawbacks make the creation of free zones unnecessary in the United States; free zones would only add to the expenses of protecting the customs revenue without benefiting the country.

3. The legality of creating free zones in the United States has been questioned by some, on account of the clause in our Constitution to the effect that "no preference shall be given by any regulation of commerce or revenue to the ports of one state over those of another."

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CHAPTER X

GOVERNMENTAL TRADE-PROMOTING INSTITUTIONS OTHER THAN THE DEPARTMENT OF COMMERCE

Government and Private Business.—American business men, as a rule, object to the Government directing commercial activities; they resent what has been often termed in this country official interference in private affairs; they resent it even if the directing is undertaken with the ostensible purpose of lending assistance and of conferring benefits. Most American business men prefer meeting their own problems, making their own decisions, fighting their own battles and reaping the results of their own initiative and enterprise. The impress which bureaucratic control has made upon our country during the War has not been very deep; however, this control in one form or another still exists and the business interests of the country are striving to emancipate themselves from it. This does not mean that American business men are unappreciative of the ever-increasing amount of information which is being gathered and disseminated through governmental channels, neither does it imply that they are averse to accepting governmental advice; but it does mean that American business men refuse to become parties to organizations wielded by bureaucratic regulations and directed by public officials. There is a deep-rooted feeling in our business circles that official organs should refrain from performing such functions as are being carried on or may be efficiently discharged by private agencies.

The Congress.—The legislative branch of the National Government exerts a far-reaching influence upon foreign

trade through its power of enacting laws. The majority of legislative acts have a direct or indirect bearing upon commercial relations, either encouraging or restricting them; into this group fall laws establishing customs duties, regulating banking business, promoting shipbuilding and shipping, extending the services of various governmental trade-promoting agencies, as well as a large number of other measures, which affect the various manifestations of the economic life of the nation. The preliminary work of preparing bills is entrusted by the House of Representatives and the Senate to their standing committees.

The President.—The President's jurisdiction over foreign trade is exercised: (1) through his right of appointing with the advice and consent of the Senate, the chief executive officers of the various governmental departments dealing directly and indirectly with the regulation and promotion of commerce; (2) through the authority which he has of concluding commercial treaties, subject to the ratification of the Senate and the approval of the House; (3) through his power of issuing ordinances and proclamations.

The Fordney-McCumber Tariff Act gives the President much broader powers than those he had heretofore possessed, both in the establishment of reciprocal tariff relations with other countries and in the application of the duties; rates were made flexible, leaving it within the discretion of the President to apply the exact rate.

The Department of State.—The Department of State is concerned primarily with political questions involving the sovereign interests of the nation. Its methods, when it deals with other nations, are those of diplomacy and its language is that of ambassadorial and ministerial dignity and calmness. There is little in the procedure of the Department of State to suggest its close connection with counting rooms, warehouses, factories and stores of those who buy and sell in the world's markets; and yet, the majority of present-day political questions involving state action are

commercial in character. Trade questions give rise to the greatest number of international misunderstandings and disagreements, and they require all the knowledge, tact and good will which national leaders may possess in order to arrive at amicable settlements of disputes.

Office of the Economic Advisers.—The State Department needs a central economic organization and this need is supplied by the Economic Adviser's office. This office furnishes the Department with data and comments pertaining to the various phases of American foreign trade; it compiles statistics and prepares reports covering such problems as tariff and customs regulations, commercial treaties, shipping, banking and exchange. The Economic Adviser's office investigates cases of discriminations against American business men, and assists in every possible way in the arrival at correct decisions when formulating the country's economic policies. The office possesses numerous files on foreign trade; these are used primarily in the interest of the Department, information or advice not being furnished, as a rule, to private individuals or companies, this being the function of the Department of Commerce. During the War, Economic Advisers, known then as Foreign Trade Advisers, were entrusted with much important work made necessary because of restrictions placed upon the sea-borne trade by the belligerent nations; after the conclusion of peace one of their important duties became the preparation of data for use in negotiating commercial treaties.

In order to be able to advise the Department properly, the office, besides maintaining close relations with the diplomatic and consular service, is in touch with American business men, with various commercial organizations, and with other Departments and Bureaus of the Government which are interested in economic matters. The Economic Adviser seeks to cooperate with other governmental agencies in order to avoid duplication of work and confusion of functions; he takes or advises action only with respect to those

matters which are held to fall properly within the purview of the Department of State. The personnel of the office consists of the Economic Adviser and four economic specialists.

Office of the Director of the Consular Service.—The Director of the Consular Service and the Consular Bureau have supervision over the Consular Service, just as the Diplomatic Bureau administers the Diplomatic Service. It is especially the consular officer who devotes his thought and time to the needs of American foreign trade in general as well as to the protection of the interests of individual traders while they are abroad. But as has been already stated, there are many economic problems, international in character, which must be handled through diplomatic channels; the duties of our ambassadors and ministers include the handling of such problems.

When in 1921 a reorganization of the Office of Economic Advisers took place, the section of the office in which diplomatic and consular reports were distributed was transferred to the Office of the Director of the Consular Service. This office was entrusted with the work of supervising the censoring, grading and criticizing of commercial and economic reports, the drafting of correspondence on consular trade promotion and reporting work, as well as the distributing of commercial and economic reports to the Department of Commerce and to such other Government departments and organizations and non-governmental organizations as may properly receive such reports. The section so transferred is known as the Consular Commercial Office.

The Director of the Consular Service has charge of the correspondence with the American consular officers abroad; he confers with them when they are in Washington, furnishes instructions for the positions to which candidates are appointed and keeps an efficiency record of the officers; this record determines their promotions, transfers, etc.

Geographical Divisions.—Among the other offices in the Department of State, whose work is directly concerned with foreign commerce the Geographical Divisions play an important rôle. They include the Division of Western European Affairs, Division of Latin-American Affairs, Division of Mexican Affairs, Division of Far Eastern Affairs, and Division of Near Eastern Affairs. These divisions handle all correspondence relating to the territories which they cover, and a large proportion of this correspondence concerns itself with commercial matters. The divisions' services are invoked whether the question is one of obtaining railway or mining concessions or one of settling the claims of American firms against foreign governments, whether the matter pertains to the protection of patent rights of American concerns, to the aiding of American shipyards to obtain foreign government contracts, or to the removal of discriminations against American enterprises abroad.

The War Department.—The influence of the War Department upon the development of foreign trade has been exercised primarily through its Engineering Division. This branch of the Department is charged, among its various duties, with the improvement of American rivers and harbors and with geographical explorations and surveys. By improving material conditions of traffic, the War Department facilitates commercial intercourse.

One of the most conspicuous contributions of the Department to world trade in general and to the commerce of the United States in particular was the construction of the Panama Canal. The opening of the canal passed almost unnoticed because of the fact that it occurred in August, 1914; the Great War broke out just before the first commercial vessel, the American steamer *Ancona,* went through the canal. With the return to normal conditions the influence of the Panama Canal upon international commercial relations will become more and more pronounced. The shortening of distances which

it brought about is found to produce a stimulating effect upon the trade between the countries washed by the Atlantic and the Pacific Oceans; the eastern coast of the United States has been brought through it into closer touch with the western coast of South America, as well as with the markets of China, Japan, Siberia, Australia and New Zealand; while the western coast of our country has been brought nearer to the nations of Europe and to the South American Republics facing the Atlantic Ocean.

The War Department may also be used as a source of commercial information. Those trading in the Philippines and in Porto Rico should not fail to utilize the services of the Department's Bureau of Insular Affairs. While these islands are politically American possessions, the questions arising in connection with the selling and buying of goods there do not differ materially from those confronting exporters and importers in general.

The Treasury Department.—The importance of the Treasury Department to the foreign trade of the country lies largely in the supervision by this Department of all matters relating to the collection of customs duties, the management of bonded warehouses and the issuance of drawbacks. The Customs Division of this Department prepares and promulgates the regulations governing the activities of customs officers, and it publishes the decisions of the Treasury Department and the Board of General Appraisers bearing upon the classification of imported goods, the rates of duty which they have to pay and upon any other questions involved in the administration of the tariff. The Customs Division's functions comprise also: (1) the investigation of appeals against the collectors' assessment of duty upon passengers' baggage, household effects, etc., (2) the decision upon requests from scientific and other societies regarding the free entry of articles, which may be so entered in accordance with the special provisions of the tariff law; (3) the consideration of applications for the

release of seized goods and for the remission or mitigation of fines and penalties; (4) the giving of advice and instructions to customs officers relative to current procedure, to the construction of different statutes and to the line of action to follow under special conditions.

The promotive work of the Treasury Department centered, during the War, in the Bureau of War Risk Insurance, which by reducing risks facilitated shipments. The Department arranged also the first Pan-American Financial Congress, which convened in 1915. It supervises the work of the Inter-American High Commission, one of whose main tasks is the unification of laws affecting the most important situations which may arise in connection with the exchange of goods and services among the American Republics. Jointly with the Federal Reserve Board, the Treasury Department has supervision over the national banks, which since the passage of the Federal Reserve Act have been financing a large part of our foreign trade.

Department of Agriculture.—In conformity with the character of American foreign trade, which until recently was on its export side predominantly agricultural, the first official information regarding foreign countries as a market for American goods was that gathered by the United States Department of Agriculture. The report of the Department for 1844 contained cargo lists of ships sailing for European ports from this country; the purpose of these lists was to illustrate the varieties of agricultural products shipped to different destinations; the report contained also quotations of Liverpool prices on a number of agricultural products, comments on methods of marketing American meat, possibilities of introducing corn more extensively into Europe, and similar material.

As early as 1866 the Department of Agriculture began a systematic collection and dissemination of agricultural information from foreign countries; the work has been gradually developed until at present the Bureau of Agricultural Economics receives from practically every country

in the world crop reports and all other statistical data whenever issued.

The need for actively seeking foreign markets for American farm products was not felt very keenly until recently; farm products belong largely to that group of commodities in which the buyer scans the markets for sources of supply. However, it was recognized that there is a difference between simply selling and selling on the most advantageous terms. About twenty-five years ago a section was formed under the supervision of the Secretary of Agriculture for the development of foreign markets for farm products. In 1903 this section was united with the Division of Statistics to form the Bureau of Statistics. The work of the division, which consisted in compiling statistical information relating to foreign agriculture and trade in agricultural products was further expanded by the organization of the Foreign Markets Service in the Bureau of Markets and Crop Reports.

The work of this service is now being reorganized so as to place it on a commodity basis. Special commodity experts on grain, cotton, pork and pork products, dairy products and vegetable oils have been appointed to direct the work of the employees engaged in the collection and analysis of data relating to prices, production and consumption, stocks, ocean and land transportation, market demand, trade practices and preferences for each of these commodities.

The Department of Agriculture is assisted in its foreign work by the consular service, as well as by the commercial attachés and trade commissioners, who, in addition to their other work, transmit to the Department by cable the advance issues of the crop reports. The Department maintains its own commissioners, one in London, one in Berlin, and one in Buenos Aires, also a number of special representatives in Europe, who are making a study of the general economic and trade conditions with particular reference to their effect upon the raising and marketing of American agricultural products. Data are also obtained by the

Department through direct contact with governmental institutions in foreign countries, such as Ministers of Agriculture, and with various official statistical agencies, including the International Institute of Agriculture at Rome.

The Foreign Section of the Bureau of Agricultural Economics, which is the office in the Department primarily concerning itself with foreign competition and demand, receives wireless reports from the International Institute of Agriculture. These reports permit it to broadcast foreign crop estimates and other data of value to the American farmer.

A more thorough development of the world crop and marketing service of the Department was made possible by an Act of Congress, approved March 3, 1921, which made an appropriation of " not less than $50,000 to be used for collecting and disseminating to American producers, importers, exporters and other interested persons information relative to the world supply of and need for American agricultural products, marketing methods, conditions, prices, and other factors, a knowledge of which is necessary for an advantageous disposition of such products in foreign countries."

Information concerning foreign crops and farm animals is issued weekly in *Foreign Crops and Markets*. From 1918 until the end of 1921, information concerning foreign markets was published weekly in *The Market Reporter*. Beginning with the January, 1922, issue *The Market Reporter* was consolidated with *The Monthly Crop Reporter* and *The National Weather* and *Crop Bulletin*; it is printed weekly as a single publication under the title *Weather, Crops, and Markets*.

Some of the powers of the Secretary of Agriculture bring him into direct contact with foreign trade; the most important of these vest in him and his Department the control of the quarantine stations for imported cattle, the inspection of cattle-carrying vessels and of all imported foodstuffs, the inspection of domestic meats intended for interstate

and foreign commerce, and supervision of the laws preventing the importation of noxious animals. A certificate of inspection by our Department of Agriculture is required before certain plant and animal products are permitted to enter foreign countries.

The close relation between the work of the Department of Agriculture and foreign trade was made evident by the passage, in March, 1923, of the United States Cotton Standards Act. This Act made transactions in cotton unlawful unless cotton is named, described or designated in accordance with the grades or classes of the official cotton standards adopted by Congress. As a large part of the export business in American cotton has been heretofore based on Liverpool and other foreign standards or classifications, a difficult situation arose. In order to solve the problem, the Department of Agriculture callėd a World's Cotton Conference in Washington at which were present delegates from Liverpool, Manchester, Havre and a few other foreign cotton exchanges as well as from the most important cotton exchanges of the United States.

After much deliberation and a few slight changes in the grades, the American standards were accepted as universal standards to be used when trading in American cotton. The Department of Agriculture agreed to leave to foreign representative bodies designated by the Secretary of Agriculture the authority to determine the final classification as to grade and color, in accordance with said American standards.

The following foreign organizations have adopted American standards for dealing in American cotton: Liverpool Cotton Association; Manchester Cotton Association; Federation of Master Cotton Spinners' Association of England; Baumwoll Börse, Bremen; Syndicat de Commerce des Cotons, Havre; Asociazione Cotoniera Italiana, Milan; Centro Algodonero, Barcelona; Association Cotonière de Belgique; and Vereeniging Voor Den Katoen Handel, Rotterdam.

Of indirect assistance but of very great importance to foreign trade is the Weather Bureau of the Department; it issues forecasts and storm warnings, thus contributing to the safety of navigation.

The Post-Office Department.—One of the important ways of concluding foreign sales and purchase contracts is by means of correspondence; correspondence is also used in order to communicate directions to foreign agents and to managers of branch offices, to make collections, to adjust differences, to rectify mistakes, to send catalogues, price lists and samples. The services rendered by the Post-Office Department in these various connections are so well known as to need no explanation. It is well to remember that small shipments may be sent by parcel post at a comparatively low rate of charge and that the international postal money order is one of the convenient ways of transferring money to and receiving it from foreign countries.

The important rôle played in world trade by *International Parcel Post* may be realized if one reflects that in the years immediately preceding the Great War hundreds of millions of dollars' worth of parcels were annually shipped from one country to another, France having headed the list in 1913 with over $110,000,000 worth of parcels exported. No definite data are available for the United States, but estimates place American parcel exports at about one-half of the total for France. Somewhat larger than American parcel exports were those of Germany and Austria-Hungary, while the British exports about equaled them. Parcel post is particularly well adapted for the transmission of compact specialties and other processed consumer's wares, such as gloves, shoes, furnishings, ornaments, etc. The weight of parcels that can be shipped from the United States is limited by arrangements with most foreign countries to 11 pounds and the size to 6 feet by 3½ feet. The charges are 12 cents a pound or fraction of a pound. The Post-Office Department does not insure foreign parcel post packages; however, they may be insured through certain marine insur-

ance companies which specialize in this form of insurance. In 1913, parcel post packages could be sent from the United States to only forty-four countries. By 1922, through the efforts of our postal department, which was acting in conformity with the strongly expressed wishes of the National Foreign Trade Council and similar organizations, the number of countries that could be so reached rose to one hundred and eighty. The weight limit in the case of fifteen countries has been increased from 11 pounds to 22 pounds.

The parcel post shipments are forwarded as a rule in ordinary mail sacks; the packing, therefore, must be sufficiently strong to withstand the friction within the sacks and the weight of merchandise which is often piled on top of them; rough handling and exposure to weather should also be taken into consideration.

One of the facilities offered the exporter is the privilege of making up the so-called "combination package." According to the Advisory Committee on International Parcel Post, the combination package is a package which "consists of two parts firmly attached together, both parts bearing the same address, one part being a sealed envelope containing the communication, fully prepaid at the letter rate of postage, and the other being an unsealed package containing samples of merchandise or printed matter fully prepaid at the appropriate rate of postage." Thus it is possible to send both a catalogue and a letter in the same package, paying the proper rate of postage on each. These combination packages may be sent at present to some fifteen countries. This obviates the old and costly method of sending catalogues and samples first class in order to assure their arrival at the same time as the letter referring to them.

Federal Trade Commission.—The activities of the Commission relating to the foreign trade of the United States are twofold: (1) administration of the Webb-Pomerene Law (The Export Trade Act) of 1918, permitting the formation of associations for the purpose of engaging in export trade; (2) investigation of trade conditions in foreign countries

where associations, combinations, or practices of manufacturers, merchants or traders, or other conditions may affect the foreign trade of the United States. The Act which created the Commission provided that the results of investigations be reported by the Commission to Congress with such recommendations as it deems advisable.

The Export Trade Division of the Commission receives many requests for information concerning foreign combinations from Government departments, trade associations, and individual business concerns.

The number of foreign complaints referred to the Commission for investigation has increased steadily. During the fiscal year 1922, more than one hundred complaints have been investigated, involving a large variety of unfair practices affecting the foreign trade of the United States. The Commission also investigates complaints against American traders, and it attempts to adjust matters in dispute.

The Federal Reserve Board.—The Federal Reserve Board exercises its influence upon foreign trade through the administration of national banks and of the Edge Law corporations. It issues regulations governing such matters as the rediscount by Federal Reserve banks of bank acceptances. The Board's rulings may influence either favorably or adversely the financing of foreign shipments by giving a greater or smaller elasticity to the requirements with which the bills of exchange offered for rediscount must comply. Thus the revision of the regulations of 1920, which was made at the beginning of 1922, has eliminated the virtual requirement that all bills which may be accepted in import and export transactions must be documentary or secured in order to render them eligible for rediscount.

The Federal Reserve Bulletin issued by the Board is a source of much valuable trade information, of interest not only to bankers for whom it is primarily intended but also to exporting and importing manufacturers and merchants. The Bulletin contains indexes of foreign trade, of foreign exchange, of wholesale prices in the leading commercial

countries, of ocean freight rates; it presents monthly reviews of business and financial conditions at home and abroad, and it carries special articles on such topics as Foreign Bills of Exchange, Financing Cotton for Export, Competitive Advantages in International Markets of Countries with Depreciated Currencies, etc.

The Statistical Division of the Board has undertaken the construction of an international price index in order that the relative purchasing power of money in different countries may be ascertained and compared. The importance of such an index for those engaged in foreign commerce needs no explanation.

The War Finance Corporation.—The War Finance Corporation began to function on May 20, 1918, for the purpose of extending assistance to essential industries, mainly by advancing money to banks, bankers, trust companies, and building and loan associations which themselves had made such advances to industrial enterprises. The total advances could not exceed $1,000,000,000 outstanding at any one time and the maximum maturity of loans was fixed at five years.

An amendment to the Act which created the War Finance Corporation was approved on March 3, 1919. In order to promote commerce with foreign nations, the Corporation was empowered and authorized to make loans, under certain prescribed conditions, to persons, firms, corporations or associations engaged in the business of exporting domestic products of the United States to foreign countries. Loans were also authorized to banks, bankers, or trust companies financing exports of domestic products. During 1919 there was little need for the War Finance Corporation's assistance in financing foreign trade; the Government contributed to the high level of exports through the medium of loans made by the Treasury Department to foreign governments, through the authorization given to the War Department to sell its surplus stock on credit and through various measures passed by Congress for the relief of distress among European nations.

The first loan for the purpose of promoting exports was made by the Corporation on December 23, 1919. The total advances to November 30, 1920, equaled $46,348,000; the amount would have been larger were it not for the fact that on May 10, 1920, at the request of the Secretary of the Treasury, advances in aid of exports were suspended, except pursuant to commitments theretofore made.

Because of an acute collapse of domestic commodity markets in the latter part of 1920, a great deal of pressure was brought to bear for the revival of the War Finance Corporation's activities in financing exports. In January, 1921, the Congress adopted a joint resolution directing the War Finance Corporation to resume its activities "with the view of assisting in the financing of the exportation of agricultural and other products to foreign countries."

Attention was directed first to the financing of our leading agricultural export product, raw cotton. A study of the problem made it clear that a change had taken place in the European situation; an unwillingness to buy developed there, irrespective of the terms of sales; this unwillingness was largely due to high risks involved in buying when one has to deal with a violently fluctuating exchange. The successive steps taken by the Corporation in order to meet the difficulties were:

1. Advances to finance the carrying of stocks of American cotton in foreign warehouses.

2. Advances on cotton stored in America which was under contract for sale to foreigners.

3. Advances to cotton cooperative associations in the South to permit them to carry cotton until it could be exported in an orderly manner, the associations agreeing that out of the cotton pledged as security for the loan they would export within a year a sufficient quantity to repay the full amount of the advance. In all, the Corporation agreed to finance approximately a million bales of cotton.

Besides advances on cotton, loans were also authorized to cooperative associations, on wheat, dried fruits, canned

fruits and vegetables, and to exporters or banking institutions, on tobacco, condensed milk and meat products. A limited number of applications for loans in connection with the exportation of manufactured products, such as railroad equipment, copper, and sugar mill machinery, were also approved.

The reestablishment of the War Finance Corporation as a peace-time institution can scarcely be considered as a step in the right direction. It represents governmental surrender to the demand for Treasury support on the part of a certain class of producers whose prices were falling and who could not market their products satisfactorily. If the Government can be made to intervene in order to keep up or raise prices for one class of producers by permitting them to withhold their goods from the market or by facilitating the shipment of their goods abroad, there is no reason why it should not be made to intervene similarly for all other classes of producers. The power to loan money to private interests is an addition to the functions of the Treasury from which it would be wise for the Department to abstain. There seems no end to the extension of governmental activities; such extension must stop somewhere, and the best place to stop, if nowhere else, is where the work leads governmental machinery into the paths of banking and private finance. Of all economic activities this surely is one which, while requiring strict governmental supervision, is not well adapted to bureaucratic ways of doing things. As the Philadelphia Board of Trade, in its Memorial transmitted to Congress in 1921, stated: "The financing of the country's exports is the business of its banks and the Government in assuming this function of private business threatens to place upon the taxpayers additional burdens, which the banking interests should and would undertake were conditions such as to justify the tender of their services."

The bill reviving the War Finance Corporation became a law over the veto of the President who, in his veto message,

expressed the fear that the revival of the Corporation's activities "would raise false hopes among the very people who would expect most, and would be harmful to the natural and orderly processes of business and finance."

The United States Shipping Board.—The Shipping Act of September 7, 1916, which was passed under the stress of conditions created by the War, established the United States Shipping Board for the purpose: (1) of providing an organ which would encourage, create, and develop an auxiliary fleet for the navy, and a merchant marine adequate to meet the requirements of the commerce of the United States, and (2) of exercising a control over water carriers engaged in the foreign and interstate commerce of the United States. In order to carry out the first aim of the Shipping Act, the Board created on April 16, 1917, the Emergency Fleet Corporation, whose maximum capital stock was placed at $50,000,000 and to which were delegated the powers regarding the acquisition and operation of ships. Subsequent war measures, such as the Urgent Deficiencies Appropriation Act of June 15, 1917, greatly extended the powers of the Shipping Board and of the Emergency Fleet Corporation.

The Urgent Deficiencies Act conferred on the President and through him on the Shipping Board powers in connection with the taking over of industrial plants or of outputs of such plants, or the requisitioning of ships either completed or under construction.

The number of Commissioners on the Board was increased by the Merchant Marine Act of January 5, 1920, from five to seven. This was done in order to render possible a sufficient representation for every section of the country and thus to do justice to the maritime interests of the different parts of the United States. The Board was given power to sell, at its own discretion, but subject to certain limitations, the ships to which it is holding title. Much discussion arose both in the Senate and in the House in connection with this clause, the provision finally adopted

being that Government-owned vessels must be offered for sale on a competitive basis. This was a compromise between Mr. Greene's Report which proposed the sale of ships at an early date and at whatever price they might bring, so as to transfer them into private hands before the drop in tonnage and freight values which Mr. Greene feared was bound to come, and the Senate's stand that the ships are people's property and should not be sacrificed merely to get rid of them.

The Board is instructed to establish, wherever necessary, new steamship services by either selling or chartering Government vessels; also to investigate traffic conditions in the tributary territories to the leading ports of the country, so as to be able to remedy, in cooperation with the Interstate Commerce Commission, congestion at certain ports. Many other duties are entrusted to the Board, the most important of which is that of issuing rules and regulations affecting shipping, for the purpose of protecting American boats against unreasonable foreign competition.

The Shipping Board was reorganized during the latter part of 1921. Up to that time it was so absorbed by the exercise of administrative duties in connection with its supervision of the Emergency Fleet Corporation, that it had no opportunity to engage in the work planned for it under the provisions of the Merchant Marine Act of 1920. The Board disassociated itself from the detailed control of the Emergency Fleet Corporation and in doing so it made an important step toward the formulation of its own policies and the realization of the plans for its own work. The Board was divided into five bureaus, each headed by a commissioner and all supervised by the chairman of the Board, in whose hands was also placed the handling of all matters of finance. The established bureaus are those of traffic, operations, construction, law, and research.

It is the function of the traffic bureau to determine the necessary trade routes which should be developed, to scrutinize all conferences and agreements in foreign and

domestic trades, and to investigate all complaints of unfair prices or of discrimination in rates.

The bureau of operation studies the relative cost of operating American and foreign ships, particularly with regard to labor costs. It investigates industrial relations with reference to marine and dock labor and in general inquiries into port, pier, and other terminal facilities.

Among the duties of the bureau of construction are the study of the relative cost of shipbuilding at home and abroad, and the passing upon transfers of American vessels to foreign ownership and registry.

The bureau of law examines international, foreign, and domestic laws affecting shipping and advises the Board of any instances wherein the laws are unjustly discriminatory.

The bureau of research conducts studies and gathers data pertaining to any matter in which the Board is interested. It supervises the division of field information and marine insurance for the Board.

The Pan-American Union.—The Pan-American Union was established in 1890 for the purpose of advancing the commerce, good understanding and friendly relations between the countries of the Western Hemisphere. It is maintained by the Government of the United States and the governments of the Central American and South American republics. The affairs of the Union are administered by a Director General and an Assistant Director. These are elected by a Governing Board which is composed of the Secretary of State of the United States and of the diplomatic representatives of the Latin-American republics in Washington. For commercial purposes, the Union is in close touch, both in North and in South America, with governmental departments and bureaus, with trade associations, chambers of commerce, transportation companies, with manufacturers, exporters and importers. The Union has become an important bureau of information for Latin-American republics whose municipal and state authorities, as well as private business firms, send inquiries to the Union

in ever-increasing numbers. The Union is also one of the best centers of information about Latin America in the United States. The offices of the Union are provided with a staff of statisticians, commercial experts, librarians, translators, compilers and editors who are in frequent consultation with the personnel of the Bureau of Foreign and Domestic Commerce. The Union receives both the official and unofficial commercial publications of Latin America and it publishes its own illustrated monthly magazine, *Bulletin of the Pan-American Union*, which records in an interesting manner the most important developments in the industrial and commercial life of the Pan-American republics. This Bulletin is printed in three editions—in English, in Spanish, and in Portuguese. The other publications of the Union comprise numerous handbooks and monographs on Latin-American countries, maps, pamphlets on customs tariffs, railways, banking and similar subjects.

The Inter-American High Commission.—The Inter-American High Commission was formed by the official representatives of the American republics at the First Pan-American Financial Conference, which was held in Washington, in 1915. The aim of the Commission is the creation of conditions which would increase commerce among the American republics. Some of the tasks which the Commission has set for itself are: (*a*) introduction of uniformity in the classification of merchandise, customs regulations, consular certificates and invoices, port charges, treatment of commercial travelers; (*b*) obtaining of international protection of trade marks, patents, and copyrights; (*c*) establishment of a uniform low rate of postage and improvement of money-order and parcel-post facilities between the American countries; (*d*) extension of the process of arbitration for the adjustment of commercial disputes; (*e*) extension of banking facilities and of credits.

The Commission consists of national sections, each comprising usually nine members, presided over by a cabinet officer, generally the minister of finance. Each section has

rather wide representation of the industrial and financial elements through associations in the country it represents.

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CHAPTER XI

DEPARTMENT OF COMMERCE

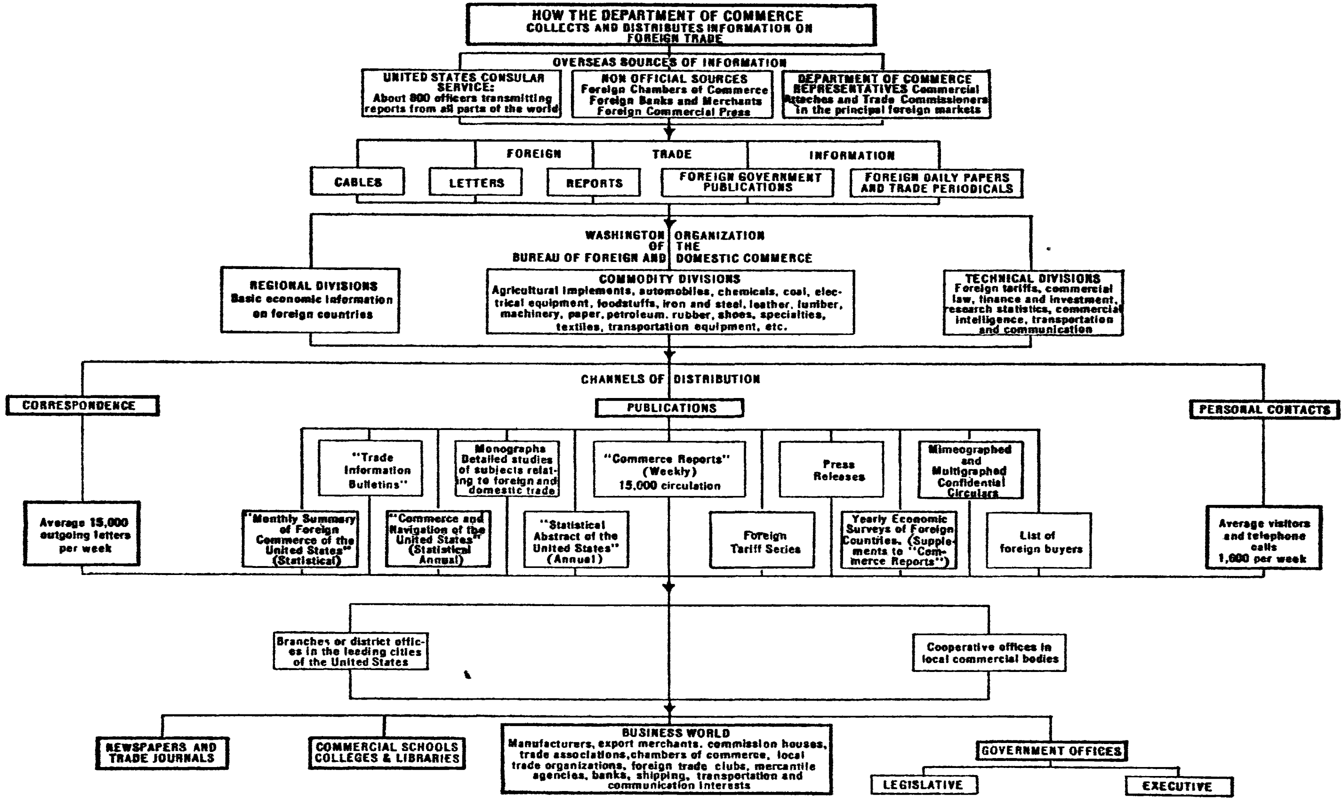
The Department of Commerce was created in 1903 as a part of the Department of Commerce and Labor; the two departments were separated in 1913. The most important division doing foreign trade promotive work in the Department is the Bureau of Foreign and Domestic Commerce. Other divisions whose activities are of value to American exporters are the Bureau of Standards, the Bureau of Fisheries, the Bureau of Navigation, the Coast and Geodetic Survey, the Lighthouse Service, the Steamboat Inspection Service, and the Bureau of the Census.

The Bureau of Foreign and Domestic Commerce. Origin and Development.—The Bureau of Foreign and Domestic Commerce was formed in 1912 by the consolidation of the Bureaus of Manufactures and of Statistics: the former bureau was organized in 1904, the latter has been in existence for almost one hundred years, being originally a part of the Treasury Department. At first the Bureau was very much handicapped by being undermanned in its main office in Washington and by not having its own representatives either in the United States or abroad. For its data it had to rely largely upon information supplied by the consular officers, appointees of the Department of State, whose activities it had neither the authority to control nor the means to direct.

Much of the trade information which the Department of Commerce received from the consular service was very useful, but it varied in character and was of unequal value. The instructions under which the consuls were working were

rather indefinite; consuls were given much freedom to exercise their ability or the lack of it in the gathering and transmission of commercial facts. Information accumulated in the files of the Bureau without reaching the parties who could benefit by it; the small force in Washington could neither check nor adequately interpret the data nor make them available for the use of business men. However, lately conditions have changed for the better. Increased appropriations have permitted the improvement and the extension of the service. There never has been a lack of good men in the branch of governmental work which deals with foreign trade; the service has always attracted to it persons of knowledge and of ability. This may be due to the fact that there is a certain fascination attached to dealing with overseas problems which makes necessary acquaintance with strange and distant peoples, with their customs, tastes and prejudices, with their systems of government, their ethical and legal concepts, and their ways of organizing merchandising activities. The work is lifted above that of mere routine of collecting more or less uninteresting data to that of investigating problems firing imagination and creating enthusiasm. Whatever the reason may be, the Bureau of Foreign and Domestic Commerce, like the divisions to which it has fallen heir, has always been able to command the services of men whose accomplishments and performances were above those of an average governmental employee and whose zeal was decidedly out of proportion to the meager pay which they were getting.

Commercial Attachés.—The field workers of the Bureau of Foreign and Domestic Commerce are divided into commercial attachés and trade commissioners, the latter formerly known as special or commercial agents. The post of commercial attachés was created in 1914, with the intention of providing resident commercial representatives abroad who would devote their time exclusively to the services of commerce. Freed from routine duties, which occupy so much of a consul's time, commercial attachés may devote



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themselves to the broader aspects of foreign trade. They make periodical trips to the United States in order to consult with leading business men and with governmental officials regarding problems confronting the country in connection with her exporting and importing activities.

Commercial attachés must be men of good general education, who are well trained in economics and who have the business point of view; they are appointed by the Secretary of Commerce after they have successfully passed written and oral examinations. As a rule, a commercial attaché is accredited by the State Department to an embassy or legation, just as is a military or a naval attaché. The fact that commercial attachés work under the guidance of, and in close cooperation with the heads of the country's diplomatic missions is sufficient reply to those who have been expressing the fear that the activities of the attachés will run counter to the efforts of our diplomatic representatives. In answering the opponents of the institution of commercial attachés, one may also point out that it is not true that only men imbued with the ideas of the sovereignty of the State are competent to handle problems of international commercial relations in so far as these involve governmental action. The truth in the matter is that many of these problems have been made unnecessarily complex because of their being handled by men trained in politics, law and statecraft, instead of by competent business men and men trained in economics.

The district assigned to a commercial attaché is much larger than the district of a consular officer; it covers a whole country and often embraces several countries.

Trade Commissioners.—Trade commissioners are traveling investigators of the Bureau sent out for the purpose of studying and reporting upon industrial and commercial conditions in foreign countries, especially in so far as these conditions may affect the sale of some particular commodity, such as textiles, furniture, canned fruit, agricultural implements, etc. The dispatch of traveling investigators

by the Bureau of Manufactures, the predecessor of the Bureau of Foreign and Domestic Commerce, began about sixteen years ago. Before the inauguration of the service of commercial attachés, trade commissioners, then known as special agents, were at times intrusted with the work of preparing reports on general economic conditions of the country to which they were sent. Such cases are now less frequent.

The traveling representatives of the Bureau must be men possessing adequate technical training and personality, as well as investigating ability; they must know how to gather data how to classify and to interpret them and how to write straightforward, businesslike accounts of their work; they should also be qualified to address public gatherings, as upon the completion of an investigation, a trade commissioner is expected to visit the principal commercial centers of the United States in order to present his findings to chambers of commerce, manufacturers' associations and similar bodies. Trade commissioners are appointed on the basis of examinations which test their knowledge of commercial subjects in general and their knowledge of the special field which they are expected to cover. They are expected to be familiar with the languages of the countries to which they are sent. Trade associations often aid the Bureau in the selection of proper men for the service.

Investigations so far conducted have included, besides studies of selling opportunities for specific goods, such subjects as credits, advertising methods, banking practice, commercial organizations.

Organization in Washington. Commodity Divisions.—The Bureau of Foreign and Domestic Commerce was reorganized by Mr. Hoover in the latter part of 1921; a radical rearrangement of divisional groupings placed the service very largely on a commodity basis. The object which Mr. Hoover had in view and which he so well succeeded in accomplishing, was to bring the Bureau into better accord with

business by making the Bureau's divisions correspond to the large industrial groups which carry on the country's productive activities. The divisions so far created comprise the following: agricultural implements, automotive, electrical equipment, foodstuffs, boots and shoes, chemical, coal, hides and leather, iron and steel, lumber, machinery, paper, petroleum, rubber products, specialties, textile. It is proposed to add many other divisions as soon as funds for that purpose become available. The chief of each commodity division is an expert in his particular line; the appointments were made after consulting the trade organizations interested in specific divisions as to their choice of the best men for the posts.

Divisional chiefs keep in close touch with the business interests they serve, so as to be thoroughly familiar with the kind of information and assistance these interests need. They give expert advice and direction to the Bureau's field workers regarding the character of investigations which may be of the greatest benefit to the branch of industry which they represent. With the assistance of a well-trained staff, they analyze, edit and disseminate the incoming material. Their information is secured from the foreign representatives of the Department of Commerce, from consular officers, as well as from various official and unofficial publications received from abroad.

As an illustration of the practical service which commodity divisions are rendering to business men, one may cite the classification of the automotive exports from the United States, which was adopted by the Automotive Division. The Division classified the exports by number, value, and countries, into three price groups for motor cars and three tonnage groups for motor trucks. This arrangement enables the Automotive Division to analyze the export figures and point out to the manufacturer the number and value of vehicles exported which are of the same classification as the ones he is producing; and when compared with the exports of competing automotive nations it forms the basis for a

deductive analysis to determine the foreign competition and the trend of overseas markets.

Technical Divisions.—The technical divisions of the Bureau comprise the following: Foreign Tariffs, Research, Finance and Investment, Statistics, Commercial Laws, Commercial Intelligence, Transportation and Communication.

The Commercial Intelligence Division.—The Commercial Intelligence Section is devoted to the compilation and maintenance of a comprehensive list of foreign buyers and agents. The information comes mainly from consuls, commercial attachés, and trade commissioners; it is kept in the form of a card index. The data on file show the size of each foreign business firm, the class of goods it handles, the nature of its activities, whether wholesale, retail or commission, the nationality of the firm. While the information given out by the Intelligence Division is not "credit information" and should be supplemented by such from other sources, it is comprehensive sales information and as such is of great value to American exporters in helping them to make their decisions as to the desirability of entering into relationship with a particular concern. It shows what kind of an organization the foreign dealer has, what are his facilities for display, for demonstration work, for repair service, etc. The information supplied by the Division helps also in the making of proper price quotations in accordance with the nature of the foreign firm's business, and it guards exporters from entrusting their interests to foreign competitors who sometimes offer their services as agents merely in order to keep American goods from the market. The Commercial Intelligence Division's data are available to firms of American ownership and control, whose name and special interest in foreign trade are recorded in the Exporters' Index.

Exporters' Index.—Firms desiring to be placed on the Exporters' Index must file a form indicating the kind of articles which they wish to export, and the sections of the world in which they are particularly interested as a field for

exporting. When they have been placed on the Index, they receive confidential circulars, bulletins and other " reserved " information regarding their particular lines; their attention is called to requests for catalogues and to articles in " Commerce Reports," which may be of interest to them in connection with the marketing of their products; their names are furnished to foreign inquirers seeking relations with American firms. The Commercial Intelligence Section supplies them, upon request, with mimeographed commodity trade lists giving the names and other data regarding the firms handling their line of goods in a given section of a country or in an entire country.

The circulars sent to " indexed " manufacturers often tell of supplies sought by foreign governments, mining and railway enterprises, and public utility corporations; they are often accompanied by samples of goods sought and by plans and specifications of works the erection of which is contemplated in foreign countries. The " Exporters' Index " now contains over 20,000 names of American manufacturers and merchants, all carefully indexed with regard to products they make or handle.

The Division of Foreign Tariffs.—The Division of Foreign Tariffs is the main repository in the United States of all the customs tariffs and regulations in force in every country in the world, both in their official editions and in English translations. All changes taking place either in classifications or in rates of duty or in the rules attending the clearance of goods through a custom house are immediately communicated to the Division which keeps its information carefully filed and readily available to all interested parties. The work is handled by tariff experts who know how to interpret tariffs, a matter which is not as easy as it may seem to the uninitiated. An inquiry addressed to the Division may often save exporters from committing costly blunders in connection with the preparation of commodities for the foreign market, the quoting of prices or the packing, marking and invoicing of the goods.

Besides handling tariffs, the Division is ready to supply information regarding the treatment in foreign countries of commercial travelers, who in many places are required to pay more or less heavy license fees and whose samples are subjected to different regulations in different parts of the world. It also keeps on file the trade mark and patent laws of every foreign country.

Division of Commercial Laws.—There is an urgent need for a sufficiently clear understanding of foreign commercial laws on the part of exporting manufacturers and merchants, as such an understanding would prevent them from committing costly legal blunders. There is also a need for legal advisers who may be consulted on any phase of foreign business by firms, whether producers or intermediaries, before entering into contractual obligations abroad, and whose services may be relied upon to defend American interests in case of legal difficulties abroad. These needs, though they have always existed, became especially pronounced during the recent collapse in prices. The normal run of business was interrupted and this made plain the many drawbacks of doing a long-range business in foreign lands whose custom and legal requirements are unknown to shippers. In recognition of this fact, a Division of Commercial Laws was established at the time of the reorganization of the Bureau in the latter part of 1921.

One of the first tasks which this new division set for itself was a thorough investigation of foreign commercial laws. A partial investigation of this nature was undertaken by the Bureau a few years ago; it resulted in the publication in 1915 of a monograph on the Commercial laws of England, Scotland, Germany and France. The present inquiry is conducted in a much more searching way. The information regarding different countries is being prepared by law experts of each country in accordance with specially compiled questionnaires; this information upon its receipt in the United States is verified by our experts. For publication purposes the laws of different countries pertaining to

the same topic are grouped together, the following subdivisions having been provided so far: (1) general laws on the conduct of business, (2) agency laws, (3) sales contracts, (4) bankruptcy laws and practice, (5) bills of exchange, (6) commercial litigation.

The Division of Commercial Laws also collects the names of reliable competent attorneys in various parts of the world, as well as the information as to the class of business in which each attorney specializes, the fees he charges, etc. Names of such attorneys are furnished only upon request from properly interested American business men. Attorney lists are neither published nor given out as a whole.

The Division contributes articles of timely interest to each number of *Commerce Reports;* some topics thus far covered are: "Arbitration of Disputes in Foreign Trade," "Legal Aid in Foreign Lands," "Agency Contracts in Foreign Trade," "Dealing with Delinquent Debtors." It has issued a number of trade-information bulletins dealing with legal aspects of trade in different countries. The Division also answers many inquiries both intra-departmental and from outsiders, and it has rendered practical aid to American exporters in collecting overdue accounts and settling business disputes.

The Division of Statistics.—The Division of Statistics handles all foreign trade statistical material as it comes into the Bureau. It analyzes and classifies this material and compiles statistics of our exports and imports, showing the kind, value, and, wherever possible, the volume of goods shipped from and into the United States, the ports through which the merchandise enters and leaves the land, the points of origin and the destination of the goods and many other data, all of which are of great assistance to the man actively engaged in foreign merchandising, to the student of problems connected with such merchandising and to the statesman responsible for the shaping and the administration of the nation's commercial policies. Statistics compiled in the Division are based upon the records collected in the custom

house districts of the country and transmitted to the Bureau by the collectors of the ports.

Finance and Investment Division.—This Division was organized largely in recognition of the close relationship between foreign trade promotion and foreign loans and investments. Its main purposes are: (1) the giving of specialized attention to the more important phases of international finance; (2) the bringing of the Bureau of Foreign and Domestic Commerce into closer contact with American bankers.

In order to provide American bankers and investors with detailed, authentic information regarding the public finances of countries that have been or are likely to become borrowers in this country, the Division has begun the preparation of a series of monographs on the public finances of Latin-American countries which it is expected to follow up by monographs on other important borrowing countries.

The Division has also begun a detailed statistical study of American investments in foreign countries.

The work of the Division includes abstract financial studies of international significance, such as reports on the balance of international payments of the United States, changes in the monetary use of silver throughout the world since the Great War, etc.

Research Division.—The Research Division is concerned mainly with the handling of major problems of economic research. It maintains close cooperation with other divisions, and a considerable part of its work consists of rendering statistical and expert services and in making more comprehensive and thorough surveys than can be undertaken by the personnel of the division to which the matter relates.

The chief medium for the dissemination of material compiled in the Research Division is the *Statistical Abstract of the United States*. Another contribution of the Division is the foreign section of the *Survey of Current Business*, which presents industrial, commercial, financial, and other statistics of the larger commercial countries of the world,

from the latest data available. The Division contributes also, from time to time, articles to *Commerce Reports;* it issues Trade Information Bulletins, handbooks, etc.

Transportation and Communication Division.—One of the main functions of the Transportation Division, after its organization, was the rendering of assistance to the United States Shipping Board, in preparing information which the latter needed in order to be able to handle judiciously its various problems. One of the studies undertaken by the Division was that regarding the origin of our exports. The purpose of this study was to ascertain whether the exports are directed to the right ports from the standpoint: (1) of railway charges, unnecessarily long hauls leading to an increase in the cost of transportation, and (2) congestion of ports. Freight congestion means loss of time in loading and unloading, increased warehousing expenses, immobilization of capital represented by the steamers and the goods, a possible deterioration of merchandise, and a delay in the delivery of goods.

The Division has available detailed statistics on the volume of water-borne trade and the flow of traffic between the ports of the world. It helps American exporters in the solution of problems concerning the packing, routing and shipping of their goods; it furnishes information on rail and ocean freight rates, port equipment, steamship services, cable and radio communications, warehouse and transshipping facilities abroad, etc.

The Division has been carrying on an extended investigation into the best methods of packing for export, and is able to give technical advice concerning box, crate and bale construction, proper interior packing, and climatic and transportation conditions abroad in so far as they affect the safe delivery of goods. Lists of reliable freight forwarders have been prepared by the Division for the principal ports of the United States, and for many foreign ports.

Among other functions of the Division is the publication of trade information bulletins on such topics as British

Railway Reorganization, the French Transportation Act of 1921, etc. It also furnishes information to American ship-owning and ship-building companies on shipping and ship-building conditions abroad.

Regional Divisions.—The function of the commodity divisions is to supply American business men with technical information in a form most acceptable to their various industrial pursuits. Regional divisions supplement this information with data showing general economic conditions in different sections of the world. Knowledge of these conditions is just as important to those seeking outlets for their goods in foreign markets as detailed technical information supplied by commodity divisions. Regional divisions present regularly, in *Commerce Reports*, surveys covering most significant developments in the industrial and commercial life of the leading countries of the world. Regional experts who are in charge of these divisions, in addition to preparing general economic reports, collaborate with commodity and technical divisions in helping particular trades in their respective areas.

District Branch Offices.—The Bureau of Foreign and Domestic Commerce maintains district offices in Boston, Chicago, New Orleans, New York, St. Louis, San Francisco, Seattle and Manila. Each office is in charge of a commercial agent who keeps in close touch with individual business men and with trade associations of his district, ascertaining their needs and opinions and distributing the Bureau's literature and confidential information. Each commercial agent has a definite territory assigned to him, usually embracing several states; thus the commercial agent in New York City covers New York, New Jersey and Connecticut; the Boston agent has jurisdiction over most of New England; the commercial agent in Chicago is in charge of most of the middle western states.

Each district office has on file the Bureau's "reserved" data regarding foreign trade opportunities, lists of foreign buyers, foreign trade directories and all governmental pub-

lications which may be of assistance to American exporters. It is provided with an Exporters' Index, which permits the agent to supply promptly the exporting manufactures of his district with any facts of a confidential nature. The district office is also used as headquarters by the commercial representatives of the Government when they tour the country; here business men may consult the commercial attaché the trade commissioner, the consular officer, and the official from the Bureau of Foreign and Domestic Commerce in Washington.

Cooperative Offices.—The Bureau of Foreign and Domestic Commerce has effected arrangements with a number of representative chambers of commerce and kindred organizations by means of which these bodies have become cooperative offices of the Bureau. The functions of a cooperative office are similar to those of a district office; the association agrees to maintain a foreign trade bureau in charge of a competent man and to distribute the Bureau's information to all interested parties irrespective of membership in the organization; the Bureau undertakes to supply the cooperative office with all of its literature as well as with confidential data. The main difference between a district office and a cooperative office is that in the first instance it is the Federal Government, and in the second the local institution, which defrays the expense of maintaining the service. Among the organizations which have so far become the Bureau's cooperative offices are the chambers of commerce of Akron, Cincinnati, Cleveland, Columbus, Dallas, Dayton, El Paso, Fort Worth, Indianapolis, Los Angeles, Newark, Omaha, Pensacola, Philadelphia, Pittsburgh, Richmond, San Diego and Syracuse, Export and Import Board of Trade of Baltimore, the Association of Commerce of Milwaukee, the Manufacturers' Association of Bridgeport, the Southern Railway System of Chattanooga, and the Hampton Roads Maritime Exchange of Norfolk.

Publications of the Bureau of Foreign and Domestic Commerce.—The publications of the Bureau of Foreign and

Domestic Commerce are one of the main sources of primary information regarding foreign trade which are available in this country. They should be freely consulted by practical men of affairs, by legislative and administrative officials, by executive heads of the various trade organizations, and the students of problems connected with foreign merchandising. The publications may be divided into those issued at regular intervals and special bulletins, monographs and handbooks which appear at irregular intervals. Each publication of the latter class covers some particular topic and is released as soon as it is completed.

The regular publications of the Bureau include *Commerce Reports*, a weekly journal which succeeded the Daily Reports in the latter part of 1921. The change was made in order to give business men, instead of an unclassified mass of unrelated data which were contained in the daily reports, a well-edited survey of foreign trade, in which the information received from the consuls, commercial attachés and other field agents of the Government is carefully analyzed and interpreted by the staff of the Bureau in Washington. A monthly supplement to *Commerce Reports* is the *Survey of Current Business*, which the Bureau of Foreign and Domestic Commerce publishes in cooperation with the Bureau of the Census and the Bureau of Standards. The changes in tariff laws and regulations, in trade mark and patent laws, in the regulations affecting commercial travelers, are all noted in the *Commerce Reports;* these changes are brought together in *Foreign Tariff Notes*, which are issued quarterly.

The other regular publications of the Bureau are: *Monthly Summary of Foreign Commerce of the United States*, containing figures not only for the month, but also for the accumulated period of the year and for two previous years; *Commerce and Navigation of the United States* (annual); *Statistical Abstract of the United States*, giving a summary of all the valuable data pertaining to the industrial, commercial and financial life of the United States as well as a few particular statistics regarding production,

trade, finance, indebtedness and similar items for foreign countries; *Trade of the United States with the World* (biennial), presenting a detailed account of the American trade during the two years preceding the issue.

The special publications of the Bureau are divided into five main groups: *Special Agent Series; Special Consular Reports; Miscellaneous Series; Foreign Tariff Series;* and *Industrial Standards.*

The character of the monographs appearing in the *Special Agent Series* was indicated in the discussion of the work of the trade commissioners. *Special Consular Reports* cover topics similar to those covered by the monographs of the special agents and trade commissioners. These reports played a much more important rôle before the Bureau acquired its own investigating field agents whom it dispatches abroad. *Special Consular Reports* contain replies from the consuls to the Bureau's circular requests, for information regarding the production and trade of some commodity in their districts. A few handbooks on individual countries were also issued in this series.

The monographs of the *Miscellaneous Series* are prepared either by the staff of the Bureau in Washington or by its representatives in other parts of the United States and in foreign countries; they cover a wide range of topics, bulletins having been issued, to mention but a few, on: "Packing for Export," "Ports of the United States," "Storage of Ship Cargoes," "Canned Foods," "Trade Directory of South America," "Export Lumber Trade of the United States," "Commercial Handbook of China," "Wearing Apparel in Peru," "Selling in Foreign Markets," "Paper Work in Export Trade." The last two monographs, like those on "Training for Foreign Trade," and "Training for the Steamship Business," represent the Bureau's direct contribution towards stimulating education and vocational training for foreign trade. This educational movement was initiated by the Federal Board for Vocational Education in the fall of 1918 when it published a

bulletin on "Education for Foreign Trade and Shipping." The Bureau's "Training for Foreign Trade" is a revised and enlarged edition of this bulletin. Needless to say, educators throughout the land welcome the work of the Government along these lines.

Foreign Tariff Series contain translations of the customs and regulations of foreign countries. In this series were published also bulletins on "Commercial Travelers in Latin-America," "Consular Regulations of Foreign Countries," and "Registration of Trade Marks in Latin America."

Industrial Standards are bilingual (English-Spanish, English-French) editions of standard specifications for industrial materials.

The Bureau of Standards.—One of the earliest connections between the Bureau of Standards and the American business man was based on the utilization by the latter of the Bureau's standards of quantity. Through standardization of weighing, measuring and other computing devices, the Bureau contributed to an expeditious handling of buying and selling operations, both in domestic and in foreign trade. Exporters have been benefited also through the use of the Bureau's metric system charts and conversion tables.

A more recent development in the services of the Bureau has been the issue of certificates of quality. Dr. S. W. Stratton, Director of the Bureau of Standards, in his address before the Eighth National Foreign Trade Convention, emphasized the importance of this part of the Bureau's work. The establishment of standards of quality and the testing and inspection of materials and finished articles to ascertain how far they conform to such standards is not an easy task. However, much progress has been made through continuous research in the Bureau's laboratories and through cooperation of manufacturers and users of tested products, both within and without governmental circles.

Certification of commercial products intended for exports is of particular importance in the case of large contracts

concluded with state, municipal or other authorities. In many instances the acceptance of goods is made contingent upon such certification.

The Bureau of Navigation.—The Bureau of Navigation has general supervision over all laws relating to navigation, regarding the operation of which it presents each year a report to the Secretary of Commerce. The Bureau's work includes the administration of laws relative to the registry, enrollment and licensing of American vessels and the filing of the documents appertaining thereto, as well as the admeasurement and lettering of ships. With the Bureau rest decisions regarding the collection and refund of tonnage taxes. Through its officers, known as shipping commissioners, stationed at the principal American ports, the Bureau supervises the shipping articles or contracts between sailors and masters regarding wages and terms of service; it enforces the laws for the protection and relief of seamen and for their punishment in case of mutiny and similar crimes.

The Coast and Geodetic Survey prepares charts of the seacoast and of the adjacent ocean, the charts showing the location of shoals and bars, of channels, of lighthouses and buoys; the charts indicate also the depth of the sea near the shore, the location and direction of all currents, etc.

The Lighthouse Service discharges all duties connected with the construction and maintenance of lighthouses, light-vessels, beacons, fog signals and buoys.

The Steamboat-inspection Service inspects annually all American vessels; it also licenses ships' officers and has general supervision over the laws relating to ships and their officers in so far as they have to do with the safety of life and property.

Without the above-mentioned services, the sea-borne trade and traffic of the United States would be subjected to so many dangers as to make it practically impossible. The discontinuance of these services would mean the death of our merchant marine and the shunning of our shores by the ships of every nation in the world.

The Bureau of Fisheries.—The Bureau of Fisheries maintains fish culture establishments and stocks with young fish the lakes, streams and coastal waters in many parts of the United States; it studies the life history of the different varieties of fish, and seeks to improve the methods and the apparati of the fishing industry. Exporters of canned fish and of fish products are thus benefited directly by the work of the Bureau. The Bureau also has supervision over the Government's fur-bearing animals in Alaska, the skins of many of which are disposed of in foreign markets.

The Bureau of the Census.—The United States Census does not concern itself with export and import statistics. The Census, however, is of great value to those engaged in foreign trade, as it is only by using export and import statistics in conjunction with the data showing the general productive and distributive activities of the country that one can gain a clear insight into the relative significance of foreign merchandising in the country's commercial life.

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(See also References to Chap. X.)

CHAPTER XII

CONSULAR SERVICE

Modern consuls are agents appointed by one nation to reside within the territory of another nation for the purpose of protecting the interests of their countrymen before the local authorities of the districts assigned to them and for promoting commercial intercourse between their own country and the country in which they are stationed.

The specific duties to be performed by consuls are determined by their governments, but ordinarily, consular officers can not enter upon the discharge of these duties without the consent of the government of the country to which they are sent. The document recognizing the consul and permitting him to exercise his official functions is known as an *exequatur;* it may be withdrawn for reasons deemed sufficient by the foreign government. In exceptional cases consuls may act without having obtained an exequatur or without being in any other way recognized by the foreign government.

The consular service differs from the diplomatic service in that the latter is the agency through which governments communicate with each other and conduct their international relations, while the consuls represent the business interests of their countrymen; they deal largely not with national but with local authorities of the country to which they are sent.

The sphere of action of a diplomatic officer abroad is the entire country to the government of which he is accredited, while the jurisdiction of a consular officer is limited to what is technically known as his consular district. The boundaries of the consulate and the place of the consular residence are defined in the consular commission.

History.—The institution of consuls antedates by several centuries that of ambassadors and ministers. It originated in the Middle Ages when merchant vessels moved in convoys and when fortified settlements or factories were used by traders as places of abode in foreign countries. The jurisdiction over members of a convoy, when ships were on the high seas or when they stayed in foreign harbors, was exercised by state judges, who were known as consuls. Similar officers administered justice in factories. At first, consuls were chosen by nationals residing abroad from among their own number; later, they were sent to factories by home authorities. Modern consuls do not exercise judicial functions, except in a few and ever-decreasing number of countries where they possess extraterritorial rights.

The first American representatives at foreign courts, sent to Europe soon after the signing of the Declaration of Independence, combined diplomatic, consular, and fiscal functions; among their duties were included the purchase of military supplies, borrowing of money to carry on war, and negotiation of treaties of amity and commerce.

In the treaties which the American commissioners concluded with France, Prussia, Holland, and Sweden, provisions were made that the functions and powers of consuls be regulated by special conventions. The first such convention was concluded in 1788 with France, and in 1792 a law was passed the purpose of which was to carry into effect the provisions of this convention. The Law of 1792 was the first act of Congress which undertook the organization of the American consular service. It gave consuls no salaries but established a schedule of fees which they were authorized to collect for their services and of which they could retain a certain amount. After the passage of this law the only salaried consuls we had for over fifty years were those established in Tunis, Tripoli, Morocco, and Algiers. As late as 1853 there were only ten salaried consuls in the entire service of the country. No special qualifications as to fitness for service, nor examinations to determine the aptitude

of the candidates were required by the Act of 1792. This act remained in force with comparatively few changes until the passage of the Law of 1856; the majority of consuls were business men who often considered their private interests first and their official duties last.

The Act of 1856 introduced some improvements. It established a classification of consular officers, defined more clearly their rights and duties and substituted salaries for fees at the more important posts. Consular officers receiving a remuneration of $1500 or more a year were forbidden from engaging in private business. Many consuls continued to receive their compensation from official and unofficial fees.

The consular reorganization law passed on April 5, 1906, abolished the unofficial fee system and made obligatory the transmission of all official fees, without deductions, to the Treasury Department. Fixed salaries became the sole compensation of all consuls with the exception of consular agents. Consuls were forbidden to engage in business or professions. The salaries provided were larger than the ones previously paid, but they could hardly be considered as adequate for attracting and retaining in the service the best possible men. Notwithstanding some increases, consular remuneration continues to be rather low. However, " as compensation in lieu of large salaries the Service offers endless opportunities to those in it for individual initiative and responsibility, and also the advantages of education, travel and the highest social connections in foreign countries. There is, perhaps, no other Government career which offers to young men of the right kind greater possibilities for responsible activities and real achievement in matters affecting the welfare of our country than the Foreign Service." (From a letter of Mr. W. J. Carr, Director of the Consular Service, to the author.)

The law of 1906 and the executive order of the same year have done much toward removing the consular service from the sphere of partisanship and politics and placing it

on a merit basis. Provisions were made: (1) for the appointment to the lower grades in the service of only those who pass successfully an examination; (2) for the retention in the service of all consular officers, irrespective of their political affiliations, as long as they prove themselves capable; (3) for the promotion to higher grades as reward for meritorious performance of duties.

An Act passed in 1915 provides that consular officers be appointed to classes, instead of to definite posts as formerly. This gives greater elasticity to the service. It leaves to the President the assignment of the consular officers to such posts as he may deem advisable in order to meet the needs of the country.

Rights and Privileges of Consuls.—The fundamental rights and privileges of consuls depend upon the principles of international law and the custom and usage of nations; certain of these rights and privileges have been guaranteed by treaties and conventions.

Consuls are exempt from arrest, except for crimes; from obligations to appear as witnesses; and, as a matter of courtesy, often from the payment of personal taxes. They have a right to display national arms and flags over the doors of their offices and dwellings; these offices and dwellings, as well as consular archives and papers, are inviolate. In other respects, unless granted extraterritorial rights, the consuls are subject to the laws of the country in which they reside.

Consular Duties.—Consular duties consist in the maintenance and promotion of all the rightful interests of American citizens and their protection in all privileges provided for by treaty or conceded by usage. When permitted by treaty, law, or usage, consuls take charge and settle the personal estate of Americans who may die abroad without legal or other representatives. They visé, and, when authorized to do so, issue passports; act as official witnesses to marriages of American citizens abroad; take depositions and perform other acts usually performed by notaries public.

They protect the health of our seaports by reporting weekly the sanitary conditions of the ports at which they reside; and, by issuing to each vessel clearing for the United States a bill of health stating the condition of the port, ship, crew, passengers, if any, and cargo, they aid in the enforcement of immigration laws.

Consuls stationed in ports perform many functions relating to their country's shipping and merchant marine. Every merchant vessel engaged in foreign trade is required to carry certain documents showing her nationality, her ownership, and the nature of her cargo. These documents must be delivered to the consul, who examines them in order to determine whether the ship's owner and captain have complied with all the requirements in such matters, and whether any attempts have been made to evade the customs and port regulations. Consuls investigate masters' complaints as to desertion, mutiny or insubordination of seamen, as well as seamen's complaints regarding unsatisfactory accommodations, food, or unnecessarily hazardous risks. They send mutineers for trial to the United States; settle wage disputes between master and seamen; send back to the United States shipwrecked or indigent seamen; survey wrecked or stranded American vessels, and, in the absence of the master or other qualified person, take charge of the wrecks and cargoes, if permitted to do so by the laws of the country where they reside.

Since 1818 American consuls have been entrusted with the task of assisting custom house appraisers through documentation of merchandise shipped to the United States. Consuls must certify to the correctness of the values of foreign products as contained in the invoices.

Consular Trade Reports.—Until the middle of the nineteenth century, consular reports were required primarily for the purpose of obtaining foreign prices which would aid customs authorities in the levying of correct duties and in order to get information that would be of value in shaping tariffs and other commercial legislation.

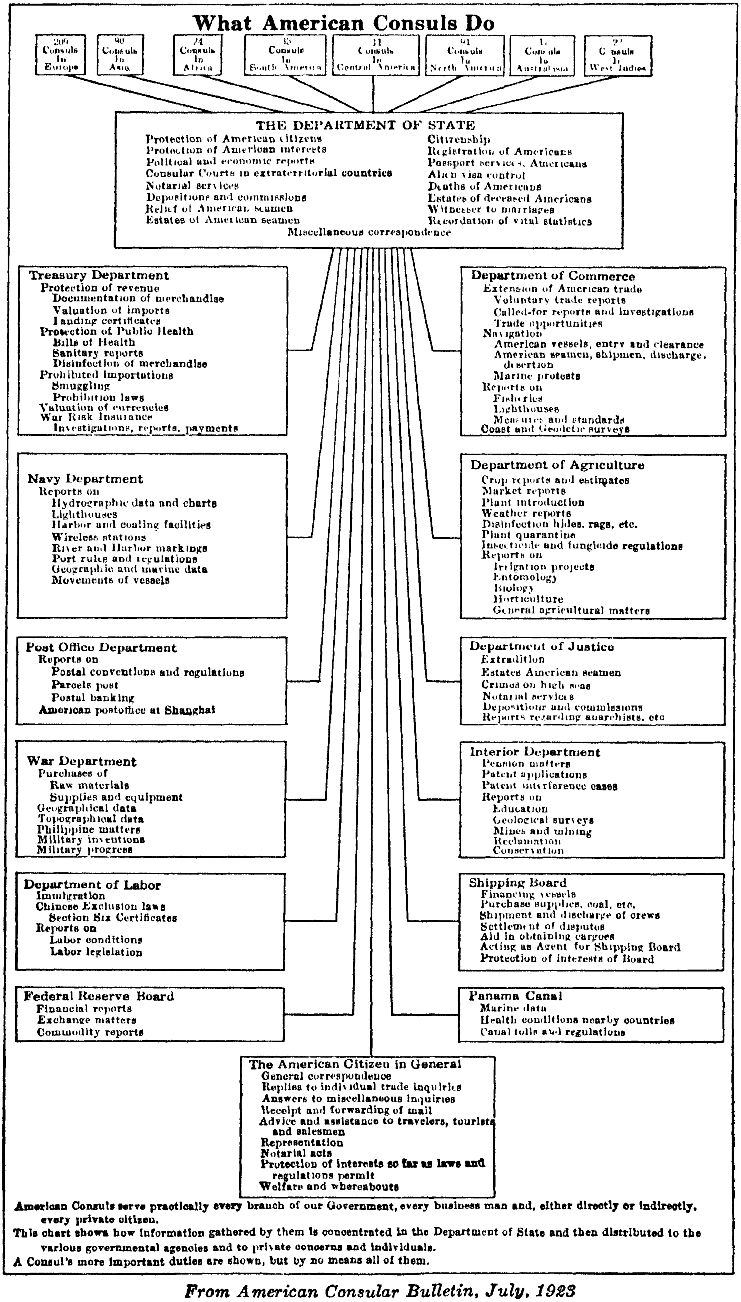
The first general circular requesting from consuls information of such a character as to be helpful in promoting foreign trade was sent out in 1853, and in 1856 a provision was made for the annual publication of consular reports. The published reports lacked uniformity, each consul collecting data and classifying them in accordance with his own ideas. As most consuls were not trained investigators and possessed little knowledge of how to handle statistical information, the majority of earlier reports were inadequate.

Attempts to unify the reports were made in 1871 and again in 1877; circulars were sent out to consuls indicating what information was particularly wanted. The publication of monthly consular reports begun in 1880, and of the daily consular reports in 1898. Both these publications have been discontinued, the latter in 1921; weekly *Commerce Reports* have taken their place.

The present consular reports contain information concerning: (1) foreign business methods with regard to conclusion of sales, granting of credits, packing and marking of goods; (2) the extent and the nature of demand, with particular attention paid to local tastes, styles, prejudices and to temporary curtailment of demand due to bad crops, shutting down of mines, strikes, etc.; (3) tariffs and customs regulations, patent and trade-mark laws, port charges; (4) character of transportation facilities to and within the country.

Consuls can not supply information as to the credit rating or business reputation of foreign firms; neither can they act as collectors of debts; but they can and often do arrange settlements of claims and adjust commercial disputes.

Qualifications and Line of Conduct.—A consul must be a man of initiative, capable of meeting various, often perplexing situations and of making his own decisions. His sphere of action is far away from the seat of his Government, and, although communications with the Department of State are possible, they consume much time, are costly and



From American Consular Bulletin, July, 1923

often entirely unnecessary. A consul who seeks guidance in every case requiring the exercise of judgment is not suitable for the position.

A consul must be familiar with local laws, regulations and customs, as well as with treaty rights and obligations; without such knowledge he may claim either too much or too little, may jeopardize individual or national interests and may involve himself in unprofitable disputes.

One of the first actions of a consul upon his arrival at the post should be to get in touch with local authorities, with the heads of the different commercial organizations and with the leading citizens of the place. Personal calls are one of the best ways of establishing amicable relations; these should not be overlooked, as the success of a consul depends largely upon his ability to make friends for himself and for his compatriots. When in Washington, it may be of great benefit to the consular appointee to examine carefully the correspondence of his predecessor with the State Department. The reading of this correspondence will acquaint him with some of the problems which he is likely to face and will show him how these problems were met. The new appointee can expect little, if any, direct assistance from the consul who preceded him at the post, the latter usually having departed before the arrival of the new incumbent.

The work of every consular officer is closely watched by the Department of State. The Department keeps for each officer a detailed efficiency record based upon his communications, his manner of handling business entrusted to him, his general discharge of duties and his knowledge of the technique of consular administration. Each consular officer and office are inspected once in every two years by consular inspectors, known as consuls general at large. The inspectors report their findings to the Department, and their reports, in addition to all other data in the possession of the Department, establish the rating of the officer and determine his promotion.

DEFINITION OF THE VARIOUS GRADES OF CONSULAR OFFICERS

Consuls General at Large.—The duty of these officers is to make such inspections of consulates as the Secretary of State shall direct. There are at present seven consuls general at large, who are appointed by the President, with the advice and consent of the Senate. Only officers already in the consular service are eligible for appointment.

Consuls General and Consuls.—Consuls General and Consuls are technically designated principal consular officers, as distinguished from all other officers in the service, who occupy subordinate positions and who are assigned to duty in the offices of the consuls general and consuls.

Consuls for Economic Investigational Work.—The present regulations make provision for the appointment of twenty-five consuls to serve as assistants to consuls general in economic investigational work. The post of these economic experts was created by an executive order of August 26, 1919. Relieved from all other consular duties, these men can devote their entire time to economic investigations and act as assistants to consuls general in supervising the economic investigations made by other consuls under the supervision of the consuls general.

Vice Consuls.—Vice Consuls are subordinate to consuls general or consuls; they perform consular duties at the same place or at different places from those at which their principals are located; in the absence of their principals, they take charge of a consulate general or a consulate; they are regarded then as substitute officers. There are two grades of vice consuls, " vice consuls *de carrière* " and vice consuls not " of career "; the first grade may be considered as a stepping stone toward appointments to higher positions; vice consuls *de carrière* are promoted on the basis of ability and efficiency. Vice consuls not " of career " are not eligible to promotion to the grade of vice consul *de carrière* or consul, without undergoing the usual examination. They often combine the position of a clerk in the consular office with that of a vice consul.

One hundred and fifty vice consuls *de carrière* were created in 1919. The war found American interests in out of way places often entrusted to non-American consular agents, receiving no salary, remunerated by fees and caring for the American trade only to the extent of a few dollars which their positions permitted them to obtain.

Consular Assistants.—Consular Assistants are assigned to consular offices by the Secretary of State to perform such duties as the Secretary may direct. These duties are similar to those entrusted to consuls. Consular assistants are frequently designated to act as vice consuls in offices to which they are designated. They are eligible for promotion, based upon efficiency, to the grade of vice consul *de carrière* or consul.

Student Interpreters.—Student Interpreters are provided for China, Japan, and Turkey. These officers are required to study the language of the country to which they are sent, with a view to becoming interpreters and vice consuls and of eventually taking the posts of consuls and consuls general. After they have become acquainted with the language of the country, student interpreters are submitted to examinations, the successful passing of which advances them to the ranks of junior and senior interpreters and then of vice consuls *de carrière.*

Consular Agents.—Consular Agents are subordinate to consuls general or consuls; they are located at places different from the seat of the consulates; consular agents are usually local business men working under the direction of the consular officers.

Compensation.—Consular officers receive stipulated salaries prescribed by law, and are prohibited from engaging in private business in the country in which they have their official residence; this prohibition applies to all officers, except to vice consuls not " of career," who are not employed at the same time as clerks in consular offices, and to consular agents who may engage in private business in the country of their official residence, provided there be no con-

flict between their private business and the public responsibilities involved in the office of consular agent.

The salaries of consular officers range from $1500 a year, received by first-year consular assistants, to $12,000, which is the remuneration of consuls general in Class I. There are four classes of consuls general, seven classes of consuls, and three classes of vice consuls *de carrière*. The salary of vice consuls in the lowest class is $2500, in the highest $3000; consular salaries begin with $3000 in Class VII and rise to $8000 in Class I. The compensation of consuls general of the lowest rank is $5500. Consuls general at large receive $5000 plus traveling and subsistence expenses; the pay of junior interpreters is $2500, of senior interpreters $3000, and of student interpreters, who are also provided with tuition and quarters, $1500. Consular agents receive one-half of the fees collected, not to exceed a maximum of $1000 per annum.

A bill for the reorganization and improvement of the Foreign Service of the United States, which was introduced in the House of Representatives in April, 1922, provides for a closer union between the diplomatic and consular service and for a retirement of foreign service officers after they have reached the age of sixty-five. The pension to which they will be entitled upon retiring will vary in accordance with the number of years they have been in the service as " career " officers.

It is felt in many quarters that the lack of a retirement fund is responsible for keeping in active service men who, because of their advanced age, are not able to discharge their duties efficiently, and that the service would be benefited by the introduction of a retiring list.

Consular Examinations.—The consular examinations consist of two parts, the oral and the written, the two having equal value for credit. The written examination includes one modern language other than English, international, maritime, and commercial law, political and commercial geography, natural, industrial, and commercial resources

and commerce of the United States, political economy, arithmetic (as used in commercial statistics, tariff calculations, exchange, accounts, etc.), modern history (since 1850, of Europe, South America, and the Far East). Composition, grammar, punctuation, spelling and writing are given attention in the written examination. The object of the oral examination is to determine the candidate's business ability, alertness, general contemporary information, and natural fitness for service, including moral, mental, and physical qualifications, character, general education and good command of English.

Student interpreters are subjected to examinations similar to those of other consular applicants. Their age limit has been set at nineteen to twenty-six inclusive; they must be unmarried and agree to remain in the service for a period of five years, if the Government desires them to do so.

In order to be placed on the eligible list, the candidates must attain an average mark of at least 80 on the whole examination. Candidates remain on the list for two years, except in the case of such candidates as have received an appointment or have withdrawn their names. At the expiration of two years, eligibility to appointment may be regained by filing a new application, being designated anew for examination, and passing successfully such second examination. Oral consular service examinations are held in Washington only. Traveling and other expenses connected with the taking of examinations must be borne by the candidate.

Applications should be accompanied by endorsements from competent and responsible persons, attesting to the moral character, integrity, good deportment, ability, business experience and any other qualifications of the applicant.

No one is examined who has not been specially designated to take the examination. Notice of such designation is sent out by the Secretary of State, who passes upon the applications. Only American citizens are appointed to the Foreign Service; the assignment of naturalized citizens to duty in the country of their birth or contiguous countries

is avoided. Men under twenty-one or over fifty are not examined for appointment as consuls and vice consuls *de carrière.*

Consular officers, before entering the service, receive in Washington two weeks of instruction regarding their various functions, duties and responsibilities. The instruction is given by the Director of Consular Service with the assistance of men in the various Bureaus of the Department of State as well as by others outside of the State Department. Addresses are delivered on such topics as consular correspondence, notarial duties and the manner of their performance, Chinese immigration and extraterritorial powers in China, trade promotion work in Europe, etc.

It is of interest to note that out of 455 " career " officers who were in the service on December 1, 1921, 398 entered through examination under regulations established by the Executive Order of June 27, 1906.

Extraterritoriality.—The first extraterritorial rights were acquired by the United States in Morocco. A treaty concluded in 1789 gave American consuls residing there the jurisdiction over their compatriots in all civil and criminal cases.

Judicial functions were exercised by the consuls of Christian nations in the past in Japan, China, Persia, Tunis, Algiers, Egypt, Turkey, Siam, Madagascar, Samoa, and Zanzibar. Extraterritorial rights have been given up in most countries, because the exercise of such rights is regarded as interfering with the sovereignty of the power granting extraterritoriality; it implies that the national authorities are not able to exercise equitably one of their most fundamental functions, that of rendering justice. To-day only very backward countries tolerate such an arrangement.

Extraterritorial jurisdiction still exists in China. However, an agreement in principle has been reached for its abandonment at the Washington conference on the Limitation of Armaments.

There is at present in China, in addition to the consuls

residing as judges, a United States court sitting in Shanghai. This court holds annual sessions in the North and in the South, and to it are made appeals from consular decisions. Appeals from the decisions of this court are carried to the United States District Court in San Francisco.

International tribunals, to which the United States appoints judges, exist in Egypt. These tribunals handle civil and commercial cases arising between natives and foreigners and between foreigners of different nationality; tribunals superseded the consular courts which still have jurisdiction in criminal cases.

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CHAPTER XIII

FOREIGN TRADE PROMOTION BY BUSINESS ORGANIZATIONS

The National Foreign Trade Council.—The National Foreign Trade Council was organized by the First National Foreign Trade Convention held in Washington in 1914, under the auspices of the American Manufacturers' Export Association, the American Asiatic Association, and the Pan-American Society of the United States. The membership of the Council, which was placed originally at thirty, is now limited to seventy-five; the members are usually chosen by the executive committee of the Council from among those attending the annual Foreign Trade Conventions, and the composition of the Council is such as to reflect the various productive, commercial, transportation and financial interests of the country. Each member is selected to represent not his particular company or his particular section of the country, but the particular class of business with which he is affiliated. The function of the Council is investigatory and advisory, and it seeks to cooperate with other organizations of the country in the formulation of a sound national foreign trade policy.

The Great War broke out soon after the establishment of the Council and it fell upon the Council to urge and to expedite the passage of war emergency measures, such as the enactment of the law admitting foreign-built ships, irrespective of their age, to American registry, the establishment of war risk insurance, and the relief of shipping congestion. The Council participated in a series of conferences called by the Government soon after the outbreak of the War and it

contributed to an early utilization of the facilities provided under the Federal Reserve Act for the rediscount of foreign commercial paper. This led to the development of the use of the dollar exchange, especially in Latin-American trade. Since its organization, the Council has been unremitting in the advocacy of legislation which would establish beyond question the legality of cooperation among exporters and it has vigorously supported the enactment of the Webb-Pomerene Law.

The other activities of the Council included the urging of increased appropriations for the support of the Department of Commerce and the Consular Service; the insistence upon relaxation, after the signing of the Armistice, of trade restrictions imposed by the War Trade Board; the creation of public opinion on the necessity of an overseas trade and the advisability of smaller manufacturers and merchants participating in it; the standardization, in cooperation with other important trade associations, of American export quotations.

The official reports of the annual Foreign Trade Conventions, which the Council publishes, contain authoritative discussions of foreign trade problems by the country's leading manufacturers, bankers, export managers, advertising agents, railroad and steamship men and governmental officials. There is scarcely an angle in the foreign trade situation which has not been considered at one time or another during the conventions and the discussion of which has not been included in the reports. Besides publishing the conventions' proceedings, the Council has issued many leaflets and pamphlets on such topics as "Ocean Shipping," "Bargaining Tariff," "Sources of Our Exports," "Commercial Possibilities of Dutch East Indies."

The National Association of Manufacturers.—The National Association of Manufacturers was organized in 1895. Its membership, as the name implies, includes manufacturers in every part of the United States. From its inception the Association has been devoting a great deal of

attention to foreign trade, carrying on direct investigations in foreign countries, maintaining a well-organized foreign trade department, and selecting for discussion at their annual meetings such topics as bear upon foreign commercial relations. In 1915, the Association called an International Trade Conference in New York City for an exchange of views and opinions as to how commerce could be promoted and facilitated under the then existing exceptional conditions and how a way could be paved for the reestablishment and extension of commercial transactions.

The Foreign Trade Department of the Association has built up extensive files and its staff is in a position to render the members of the Association valuable services.

The Department is divided into geographic divisions, such as Latin-American Trade Division, Far Eastern Trade Division, and into bureaus, the most important of which are the Compilation Bureau, General Information Bureau, Credits and Collections Bureau, Patents and Trade Marks Bureau, and Translation Bureau. The name of each bureau with the exception perhaps of the bureau of compilation, indicates its function; the compilation bureau furnishes names of importers, exporters, dealers, agents and commission houses in all parts of the world.

Many inquiries are answered daily by the Foreign Trade Department; these inquiries come both from domestic manufacturers and from foreign firms; the first seek information or advice regarding the various phases of exporting, the second seek means for the establishment of trading connections in this country.

Many foreign buyers when they come to New York visit the Association's offices in order to obtain information regarding the general industrial and commercial conditions of the country and the best sources of supply for the specific commodities which they seek to buy.

The regular publications of the Association consist of: (1) a monthly periodical, *American Industries*, intended primarily for circulation in the United States; (2) a semi-monthly

Washington Bulletin whose purpose is to acquaint members of the Association with pending legislation affecting trade; (3) Proceedings of the Annual Conventions. From time to time the Association issues a trade index, containing, for the information of foreign importers and dealers, classified lists of the manufacturers of various products in the United States. Occasional pamphlets and bulletins of the Association describe the economic conditions and the trade possibilities of foreign countries. The Association's membership approaches six thousand.

American Exporters' and Importers' Association. The main purposes of the American Exporters' and Importers' Association, which was organized in 1907, are the harmonizing of the interests of the manufacturer and the exporter and the adjusting of the many questions of transportation, banking, credit, customs regulations and foreign marketing. The Association has now about one hundred members, comprising New York firms and corporations engaged in the active work of exporting and importing, but not of manufacturing, manufacturers being barred from belonging to the Association. A number of the leading banking institutions in New York are associate members of the organization. One of the most important benefits which the Association succeeded in securing for its members and incidentally for other interested parties was the adjustment of freight rates from American ports to the River Plata and to Australia which rates would conform with those from European ports, and the obtaining of special rates on certain commodities. In the latter part of 1914 the Association took energetic action for the protection of old freight contracts which were made at low pre-war rates and which were being repudiated when the rates began to soar skyward. In 1918, when New York trucking rates became excessive, the Association formulated a schedule of rates fair to the shipper and to the truckman. These rates were accepted by some of the trucking firms. The Association, jointly with other national trade-promoting bodies, standardized and defined trade

terms in common use; it cooperates in the movement for the adoption of a uniform ocean bill of lading.

American Manufacturers' Export Association.—The American Manufacturers' Export Association was incorporated in 1911 with the prime object of promoting direct commercial relations between American manufacturers and foreign importers and exporters. It is a cooperative organization of about twelve hundred of the leading manufacturers of the country as well as of many firms and corporations engaged in shipping, banking, marine insurance, and other enterprises connected with the exporting and importing business of the country. The Association is a cooperative enterprise rendering many services similar to those furnished by other public and private trade-promoting agencies. It secures for its members the best available foreign representatives, supplies them with credit information on foreign firms, as well as with data regarding patent and trademark laws; it undertakes the translation at nominal cost of letters, circulars, catalogues, and other literature. In addition to maintaining an efficient service bureau, the Association has been instrumental in bringing about coordinate cooperative action where such action was needed in order to combat conditions inimical to American business interests abroad, such as foreign tariff discriminations, unreasonable rates or rulings of steamship or railway companies, adverse foreign governmental decrees. The Association was chiefly responsible for calling into being the first National Foreign Trade Convention, which met in Washington, D. C., in May, 1914, and which resulted in the formation of the National Foreign Trade Council. It has also worked consistently for increased appropriations for the Bureau of Foreign and Domestic Commerce.

The main publication of the Association is a bi-weekly bulletin, called the *Amexa News*. This publication is furnished gratis to all members. Once a month a luncheon is held which permits members to make valuable acquaintances, and to listen to speakers of international reputation

on the foremost topics of the day of practical interest to exporters, as well as to participate in the discussions.

A classified trade directory of the products made by the Association's members is published and distributed abroad each year; thus foreign buyers are familiarized with the names of reliable American manufacturers who have manifested their interest in foreign trade by becoming members of the Association. Upon arrival of the buying representatives in the United States, the Association stands ready to place them in touch with those of its members who manufacture the products which they desire to purchase. In order to receive the cooperation and the assistance of the Association, the foreign buyer should be provided with a card of introduction countersigned by a consul or a commercial attaché; the Association is thus reasonably certain of dealing only with buyers of reputable concerns; however, this does not imply that before establishing relations with the firms which the buyers represent one should not investigate their financial status and their general responsibility.

The National Council of American Importers and Traders.—The National Council of American Importers and Traders was formed in 1921. According to the constitution of the organization, its object is "to unite American importers for the purpose of promoting the general welfare of all import interests; to render such assistance by advice and counsel as may be necessary from time to time; to obtain and render such counsel to importers and customs authorities as may be necessary to further the extension of import trade and commerce; to make a careful and unprejudiced study of all new governmental measures proposed for the welfare of our country and its commerce, so that every phase may be considered, and not to make either objections or recommendations on any proposed law or regulation until such study shall have been completed." Soon after its establishment, the Council appointed a special committee for the purpose of studying the various proposed bills affecting customs regulations. As was to be expected, the Council

entered upon a vigorous campaign against the American valuation plan contained in Fordney's tariff bill. For a time the waging of this campaign overshadowed all other activities for the pursuance of which the Council was organized. The Association has about six hundred members.

Commercial Museums.—Commercial museums may be regarded as an outgrowth of international expositions or world fairs; in the wake of these and utilizing part of the exhibits brought to the fairs, were established some of the oldest and largest commercial museums, those of Brussels, Vienna, London and Philadelphia. The displays of a commercial museum must be continually renewed as their aim is to show exporters and importers the existing conditions of supply and demand in foreign markets. The exhibits are usually arranged both geographically, by countries, and monographically, by products. Exporters are thus enabled to form an accurate idea as to the producing and consuming capacity of the various parts of the world, and of the character of competition which they are likely to meet; on the other hand, importers can gain an insight into the best sources from which they may obtain the products which they need for their manufacturing and merchandising activities. However, exhibits alone are of little practical value to business men. What they need is specific, definite information as to prices at which the products are sold, cost of transporting these products to various markets, customs tariffs and trade regulations, patent and trade mark laws, reliable foreign dealers and agents, etc. In response to this demand, commercial museums established bureaus of foreign trade information, installed libraries and included a number of other departments in their organizations. The considerable expense attached to the maintenance of comprehensive up-to-date displays within easy reach of business men led many museums to lessen the emphasis upon this side of their trade-promoting work and to concentrate their efforts upon the supplying of trade information. Some

museums went so far as to discontinue the keeping up of display rooms.

Philadelphia Commercial Museum.—The Philadelphia Commercial Museum was established at the close of the Chicago Exposition in 1894. Very large collections were given to it by foreign governments, which participated at this exposition, particularly by the governments of the Latin-American Republics. Many valuable collections have since been added to the Museum. The exhibits serve now mainly cultural and educational purposes. The halls are visited daily not so much by merchants and manufacturers as by pupils from the schools of Philadelphia and vicinity. The museum collections have become largely a working laboratory for the study of industries, of improvements in methods of transportation, of the manner of living of foreign peoples, of the geographic distribution of labor. A lecture room has been provided in which illustrated talks are given on such topics as wheat, cotton, rubber, Brazil, Mexico, Japan, each lecture devoted to a product or to a country. The Museum has distributed to Pennsylvania schools several thousands of collections containing specimens of the most important materials of commerce, thus to a certain extent establishing miniature branch museums to serve the schools and communities in a way similar to that in which the main museum serves the schools of Philadelphia.

It is mainly through its *Foreign Trade Bureau* that the Philadelphia Museum acts as an agency for the promotion of foreign commerce. This Bureau was one of the first in this country to begin the accumulation of data regarding foreign trade subjects and the building up of a system of files permitting the preservation of such data in a readily available form. The Bureau maintains cordial relations with foreign governmental departments, commercial organizations and leading exporters and importers; it has paid correspondents in all the principal centers of trade and receives thousands of trade circulars, bulletins and reports. As a large pro-

portion of the material coming to the Bureau is in foreign languages, a competent staff of translators forms a part of the Bureau's personnel. The services of these linguists are also used in translating business correspondence, circulars and catalogues of American firms connected with the institution.

The credit information files of the Bureau have reports concerning the financial standing and responsibility of foreign importing firms. These have been made as accurate as possible through the checking up of information gathered through various sources, paid agents, foreign credit bureaus, banks, references of the houses under investigation, etc. This Division undertakes the collecting of overdue accounts and the adjustment of disputes between exporters and importers.

The Foreign Trade Bureau issues two regular publications, a monthly magazine, *Commercial America*, circulated largely abroad and a *Weekly Export Bulletin*, circulated among manufacturers and exporters in this country. The first, published in two languages, English and Spanish, is one of the important advertising media used by American exporters in order to reach foreign dealers. The second is partly devoted to the publication of letters of inquiry from foreign concerns desiring to buy American goods; it contains also news of world trade, shipping information, trade suggestions and special articles of interest to American exporters.

Trade Associations.—In most of the industries local group associations have existed for many years. The uniting of such associations into national bodies, such as the Tanners' Council, the Rubber Association of America, etc., is a comparatively recent phenomenon. It was fostered by the Government during the War, the War Industries Board having found that trade associations were the best channels for mobilizing the different manufacturing resources of the nation towards a single purpose—the winning of the War—and that they were the only means by which the Board could keep effectively in touch with indi-

vidual manufacturers and at any time have authoritative information as to the productive power of a particular line of manufacturing activities.

The value of trade associations for winning foreign markets lies in the fact that through their instrumentality the manufacturers keep in touch with each others' methods and cost of production, management of laboring forces, calculation of prices, quantity of sales. Each manufacturer is thus enabled to carry on his work more efficiently, with a full knowledge of what his friendly competitors are doing in a similar line of endeavor. Among their other activities many trade associations have undertaken a direct study of foreign trade problems and requirements pertaining to the particular industry which each body represents; they have established special export trade bureaus to which exporting and importing manufacturers may apply when in need of information and advice. Trade associations work in close cooperation with the newly organized commodity divisions of the Bureau of Foreign and Domestic Commerce, from which they receive many valuable data and which consult them as to their specific needs.

As an illustration of the work done by trade associations one may cite the compilation of a foreign trade manual by the National Automotive Chamber of Commerce. This is a compendium of foreign trade information from all angles of the automotive trade, and is being revised currently with the assistance of the Automotive Division of the Bureau of Foreign and Domestic Commerce. Similar export manuals are being prepared by a number of other trade associations.

Expositions and Fairs.—Modern fairs are the outgrowth of industrial expositions which originated less than two hundred years ago and whose aim was not commercial but educational and recreational. Such expositions were held in the larger European cities through the eighteenth century and during the early part of the nineteenth century; they contained displays of silks, statuary, china, and similar wares.

The first exposition which may be considered as international in character and commercial in aim was held in London in 1851. Since then there have been held eleven world expositions and a number of smaller international fairs. The main purpose of all these has been to acquaint the people with the latest achievements in art and science, in agriculture, mining and manufacturing. The exhibits represented the best which each country had to offer; they were intended to show the uses and advantages of the exhibited articles as well as the exhibitor's ability to meet competition. Exhibitors vied with each other in the elaborateness of their displays; but within recent years it has been thought that the cost of participation in international fairs is not commensurate with the benefits derived from them. In the latter part of the nineteenth century a movement was started to decentralize and to commercialize expositions, to rob them of their pomp and luster, and to make them a better merchandising device. Special fairs began to be held at more frequently recurring intervals; their main purpose became the promotion of sales and their main appeal was directed not to the general public but to those engaged in trade. World fairs, with their expensive splendor, with their showing of progress and of achievement, may continue to exist; but the business interests of different nations have taken upon themselves the sponsoring of less costly, but more useful undertakings. During the past two decades many sample exhibitions and commercial fairs have made their appearance in different parts of the world; some of these achieved a fair degree of success in the period immediately preceding the war. It is, however, since the conclusion of Armistice in 1918 that special exhibitions and fairs, local, national and international, have assumed a most significant rôle as sales-promoting agencies.

CHAMBERS OF COMMERCE

Chambers of commerce are of two types: the French and the English. Those of the English type, maintained

in Great Britain and the United States, are voluntary autonomous organizations supported by membership dues and free from governmental control or guidance; as a rule, no limit is placed on the number of members which may belong to a chamber of commerce of this type.

The chambers of commerce of the French type are found in France, Germany, Italy, Spain, Holland, in a number of other European countries, as well as in China, Japan and some of the South American republics. They are semi-official organizations whose establishment and operation are placed under strict governmental supervision and whose functions include many activities which in the United States would be considered as belonging within the domain of the State or National Government. In France no chamber of commerce can be created without the permission of the Minister of Commerce; the membership is very small, being limited by law; members are elected by and from the business men of the community where the chamber is established. The institutions are supported by direct taxes levied upon business concerns and their budgets must be submitted each year for governmental verification. The chambers supervise bonded warehouses, stock and produce exchanges, commercial tribunals, schools of commerce, terminal facilities; they are entrusted with the undertaking of public works, and the Government consults them on all matters of commerce, industry and navigation, their advice being carefully considered before the passage of any laws or administrative regulations bearing upon the subject.

Foreign Trade Work of American Chambers of Commerce.—Chambers of Commerce, sometimes called in this country Associations of Commerce, Boards of Trade, or Merchant Exchanges, are devoting an ever-increasing amount of attention to the problems of foreign trade. This is particularly true of the chambers established in large industrial and commercial centers; many of these chambers have foreign trade secretaries and foreign trade departments, and they act as cooperative branch offices of the Bureau of

Foreign and Domestic Commerce in those cities where the Bureau does not maintain its own district offices. One of the main purposes of the foreign trade division of a local chamber of commerce is the promotion of direct relations between the manufacturers and merchants of the locality in which the chamber is established and foreign importers and exporters; in order to further this aim, the foreign trade bureaus are usually provided with appropriate library facilities, and they have a competent staff ready to supply information and advice to those who are engaged in shipping goods from and into the country.

Some of the most active foreign trade departments which have done much useful work are those connected with the Merchants' Association of New York, the Chicago and the New Orleans Associations of Commerce, the Boston, Cincinnati, Cleveland, Columbus, Dayton, Los Angeles, Philadelphia, Pittsburgh, San Francisco and Seattle Chambers of Commerce, the Detroit Board of Commerce and the St. Louis Business Men's League. To cite but a few examples of the special activities of these bodies: The Interstate and Foreign Trade Department of the Chicago Association of Commerce is making every effort to attract foreign buyers to Chicago "as the source of origin of many goods shipped abroad, as a place where merchandise may be bought at rock bottom prices"; in 1911 the Association opened a branch in Buenos Aires, which was placed in charge of a competent manager, familiar with trade conditions in South America and with the Spanish language. This trade commissioner acted as an adviser regarding the best ways of establishing profitable connections in the South American republics, the securing of reliable agents and traveling salesmen, etc. This office was discontinued in 1915, its files and equipment having been turned over to the United States commercial attaché. The well-directed efforts of the Chicago Association have made it one of the best-known local foreign trade promoting organizations.

The New Orleans Association of Commerce is seeking to

extend the recognition of New Orleans as the "logical market for raw materials used by manufacturers, particularly from Latin America, Oceanica and the Orient." A novel service established in 1921 by the foreign trade bureau of the Association is that of a representative who meets all incoming passenger vessels to interview visiting merchants and obtain information which may be of value to local jobbers, manufacturers and exporters.

The services rendered by the Foreign Trade Bureau of the Merchants' Exchange of New York do not differ materially from those which exporters and importers obtain from national foreign trade promoting organizations. To avoid duplication, the Bureau does not handle any trade inquiry, if it is known to it that a similar request has been transmitted to any other agency, governmental or private, in the United States. The Association, because of its strategic location in the leading foreign trade center of the country, receives many thousands of inquiries concerning American products. Many representatives of foreign houses, when they come to New York, call at the Association's headquarters for guidance in getting in touch with the most desirable houses regarding the purchase and sale of merchandise. The Bureau is thus enabled to offer direct aid to New York firms in their search for foreign markets. The foreign trade information service of the Bureau has been a frequent contributor of articles to *Greater New York,* the weekly bulletin of the Association.

One of the most recent ventures of the San Francisco Chamber of Commerce was the sponsoring of a three months' trip to the Far East by a San Francisco Commercial Relationship Delegation. The delegation left San Francisco in October, 1921. It visited the Hawaiian Islands, Japan, China, the Straits Settlements, Java, French Indo-China and the Philippines. Its primary purpose was "the acquiring of first-hand information regarding the peoples and the markets of the Orient, so that foreign trade policies could be formulated and practices established which would win

for the American people the increasing friendship, respect and trade" of the Oriental countries. The Foreign Trade Department of the San Francisco Chamber of Commerce has taken an active part in the promotion of direct steamship connections between San Francisco and foreign ports. The department is particularly well equipped to handle any inquiries which may come to it regarding the trade and shipping of the Pacific Coast. It possesses a good library bearing on the subjects of commerce and transportation.

American Chambers of Commerce in Foreign Countries.—One of the main efforts of the American chambers of commerce in foreign countries has been directed toward eliminating conditions inimical to the development of commercial relations between the United States and the countries in which the chambers of commerce have been established. Such conditions may be due to ignorance, prejudice, customs and habits of the people, or to adverse legislative enactments and administrative rulings. In cooperation with native chambers of commerce, the American chambers abroad have undertaken the arbitration of disputes which may arise between American exporters and overseas importers, thus decreasing the number of misunderstandings and lawsuits and creating an atmosphere of greater friendliness and good will. The Chambers of Commerce supply the names of reliable business firms engaged in exporting and importing; they help in the selection of reliable legal advisers and attorneys, supply information on general trade conditions, on tariffs, customs regulations, warehousing and transportation facilities, on the financial standing of firms with which their members desire to enter into business relations; they make translations, certify commercial signatures, issue declarations and other commercial papers, supply members with letters of introduction and undertake a great many other activities designed to facilitate and promote commercial relations between the United States and the country in which the Chamber of Commerce is located.

Many American chambers of commerce were established through the initiative of the resident American consuls, who take an active interest in the work of the chambers. The chambers cooperate with the consuls as well as with the representatives of the Department of Commerce, but they are, like the chambers of commerce in the United States, purely voluntary organizations, supported by initiation fees and annual dues and free from governmental supervision and control.

The end of the Great War was followed by the addition of many new American commercial organizations to those already in existence abroad and by the placing of the older organizations on a more efficient working basis. There are at present American chambers of commerce in twenty-six foreign cities, including Paris, London, Berlin, Barcelona, Milan, Shanghai, Peking, Buenos Aires, Santos, Rio de Janeiro, Tampico, Havana, and Johannesburg.

The offices of the chambers of commerce are usually located in the heart of the city business district; they are provided with a reading room where one many find works dealing with the industrial and commercial conditions of the country, official statistical publications, trade directories, maps, cable codes, trade journals, etc. This printed literature is supplemented by data gathered directly by the chamber of commerce and filed by it so as to be available for ready reference.

Foreign Chambers of Commerce in the United States.—Many foreign chambers of commerce exist in the United States. The majority of these chambers were created during the past few years. The following countries are represented in New York: Argentina, Brazil, Belgium, Chile, Czechoslovakia, Great Britain, Hungary, Italy, Ireland, Latvia, Mexico, Netherlands, Norway, Poland, Portugal, Roumania, Russia, Spain, and Sweden. Chicago has a Czechoslovak and an Italian chamber of commerce. San Francisco has a Chinese, an Italian, a Japanese, and a Dutch chamber.

One of the tasks undertaken by foreign chambers of commerce in the United States is the diffusion of knowledge concerning the point of view of the countries which they represent; they strive to dispel misunderstandings, to bring about mutual sympathy and good will. This is a task worthy of the best efforts of nationals living abroad, a task the undertaking of which is alone sufficient to justify the creation and maintenance of foreign chambers of commerce. Without an understanding of one nation by another an exchange of commodities between the two may be carried on, but it is not likely to rise to large proportions, and if it were possible to make the exchange large, the desirability of it would be very doubtful.

The Chamber of Commerce of the United States.—The Chamber of Commerce of the United States came into being in 1912. Until that time there was no organization in the United States which could represent nationally the various commercial and industrial interests of the country. The rather loosely organized National Board of Trade, whose main activity consisted in the holding of annual meetings and in the passing of resolutions, was the nearest approach to such representation. That a national chamber of commerce was greatly needed in this country may be judged from the rapid growth of the present institution and from the important rôle it has played since its formation in crystallizing and voicing the views of American business men on the broader questions concerning the regulation and the promotion of domestic and foreign trade and in impressing these views upon the National Government.

The Chamber of Commerce of the United States is a federated body whose membership is composed of about thirteen hundred local commercial organizations, of national and state trade and manufacturers' associations and of many of the American chambers of commerce in foreign countries. The membership includes such organizations as the American Manufacturers' Export Association, the American Exporters' and Importers' Association, the National

Council of American Importers and Traders, the Philadelphia Commercial Museum, the Tanners' Council, the National Automobile Chamber of Commerce, the American Paper and Pulp Association, the New York Merchants' Association, the Chicago and the New Orleans Associations of Commerce, the Chambers of Commerce of Boston, Cincinnati, Cleveland, Los Angeles, Pittsburgh, Philadelphia, Portland, St. Louis, San Francisco and Seattle. This list is merely suggestive of the scope of the Chamber's membership. In addition to commercial organizations, which alone have the voting power, many business men, firms, and corporations, that are members of the constituent associations, have joined the Chamber as "associate" and as "individual" members. These members receive the regular publications of the Chamber as well as all the other services of the organization.

From the time of its establishment the National Chamber concerned itself with questions pertaining to the maintenance and promotion of American foreign trade, participating in every important movement having this aim in view. It urged repeatedly the extension of the work of the Bureau of Foreign and Domestic Commerce, the establishment of a permanent tariff commission, the passage of a law permitting cooperation for foreign trade, the improvements in the consular service. Many of the Chamber's efforts, which it exercised jointly with kindred organizations, have borne good fruit and have thus justified the Chamber's activity.

The Chamber of Commerce of the United States was instrumental in the holding of an international conference in 1919 at Atlantic City; this conference was participated in by delegations of representative business men from Great Britain, France, Italy, and Belgium; it led the way to the formation of the International Chamber of Commerce in 1920.

Recognizing the desirability of arbitrating commercial disputes, particularly in connection with misunderstandings and differences of opinion arising in foreign trade, the

National Chamber has been active in negotiating arbitration agreements, particularly in Latin-American republics. In 1916 an agreement was concluded with the Bolsa de Comercio of Argentina; and since then with the national commercial organizations of some of the other South American republics. A number of disputes have been settled under these pacts.

The establishment in 1920 of a Foreign Commerce Department provided the Chamber with a mechanism for centralizing all its foreign trade activities and for handling expeditiously the various inquiries which were coming to the Chamber in an ever-increasing number from individual and associate members interested in exporting and importing.

While answering direct foreign trade inquiries, and endeavoring to give its members the information which they seek, the Foreign Commerce Department strives to avoid duplication of work which is being done by the Government and by other reliable trade information and promotion agencies. The party making the inquiry is usually informed of the best sources of information on the topics which are involved in his inquiry.

Rarely does a number of the Chamber's monthly magazine, *The Nation's Business*, appear without some article or articles on foreign trade matters; similarly, foreign trade is not overlooked in the weekly *General Bulletin* of the Chamber, which gives an account of the work of the different governmental departments and bureaus. Another regular publication of the Chamber is a weekly *Legislative Bulletin* covering commercial bills discussed in Congress; it is issued while Congress is in session. The Foreign Commerce Department prints two regular publications: a quarterly pamphlet, *Our World Trade*, and an annual, *Foreign Commerce Handbook*.

A Foreign Commerce Department Advisory Committee of the Chamber meets whenever the occasion demands it, in order to consider various conditions of export and import trade, foreign trade legislation, etc.

International Chamber of Commerce.—The idea of bringing together representatives of Chambers of Commerce and similar business organizations originated in Belgium. The Federation of Commercial and Industrial Associations of Belgium took the initiative in 1904 by appointing an organizing committee for the purpose of placing the idea before the governments and commercial organizations of all nations. The result of the Federation's effort was an International Congress of Chambers of Commerce and of Commercial and Industrial Associations, whose first sessions were held in connection with the International Exposition at Liège. The second Congress was held in Milan in 1906, and the meetings continued to take place biennially until they were interrupted by the Great War. The Congress convened in Prague in 1908, in London in 1910, and in Boston in 1912. Its main purpose was to strive for the securing of harmony of action on all international questions affecting commerce and trade by enlisting the cooperation of the various nations in obtaining uniform laws with reference to commercial matters. The weak point of the Congress was the absence of a permanent organization.

The International Chamber of Commerce which may be considered as the successor of the Congress is an outgrowth of the International Trade Conference which was held in Atlantic City in October, 1919, under the auspices of the Chamber of Commerce of the United States. The Chamber of Commerce of the United States invited to that meeting representative business men from Belgium, France, Great Britain, Italy and the United States. Over one hundred delegates from foreign countries and about five thousand American business men were present at this Conference. One of the main objects of the meeting was to present facts dealing with the industrial and financial situation in Europe.

A preliminary draft of the constitution for the proposed International Chamber of Commerce was prepared at the Conference. It was agreed to meet in 1920 in Paris in

order to complete the organization of the Chamber. The meeting took place and the Chamber was organized.

The specific objects of the International Chamber of Commerce are:

(*a*) To maintain permanent international headquarters which shall bring together all data concerning economic subjects and social conditions, as well as present and possible future production needs of each country.

(*b*) To act as an instrument of coordination which may suggest regulations, and legislative measures to facilitate and encourage the development of economic intercourse.

(*c*) To inform public opinion through the publication of facts concerning business and general economic conditions, and through dissemination of the views of technical experts and business men.

(*d*) To place at the disposal of members and of official organizations the reports and conclusions prepared by experts and business men.

The organization and membership of the International Chamber is composed of national and local financial, industrial, and commercial bodies which are representative of the interests they include and are not conducted for individual profit or partisan purposes. Individuals, firms and corporations engaged in business that belong to organizations eligible to membership, may become associate members of the International Chamber. As such they are entitled to attend and to address general meetings and to receive the publications of the Chamber.

The affairs of the Chamber of Commerce are administered by a Council which is composed of representatives from the different countries affiliated with the organization, the representation being fixed in accordance with the economic importance of each country, based upon the value of imports and exports, national wealth, etc. The Chamber

maintains international headquarters with a general secretary and a staff of employees chosen by and subject to the control of the Council. National Committees established in each country maintain constant relations with international headquarters; each national committee is entitled to have a member on the Administration Commission of the Chamber. The members of this commission place at the disposal of the general secretary information and advice regarding their respective countries, make representations to him concerning special interests and problems, and perform such other work in the operation of the international headquarters as the general secretary may prescribe. Administrative commissioners study economic conditions throughout the world with the object of interpreting their significance to the business men of their respective countries.

The first Congress of the International Chamber of Commerce was held in London, in June, 1921; five hundred delegates representing thirty-six countries attended the Congress; of these delegates two hundred and forty-five came from the United States. The following countries were affiliated with the Chamber and formed national committees: Austria, Belgium, Czechoslovakia, Denmark, France, Great Britain, Italy, Luxemburg, Netherlands, Poland, Sweden, and the United States. Argentina, Japan, and Spain applied for affiliation at the final meeting of the Congress.

The resolutions adopted at the Congress cover a great variety of topics; they relate to burdens imposed upon international trade by existing systems of double taxation; to the undesirability of restricting legally the business of foreign banks within national frontiers; to the difficulties arising from conflicting legislation of different countries with regard to bills of exchange; to the value of standardization in production; to the disadvantages of government control or governmental participation in industry and commerce; to the abolition of restrictions in force under the

laws of certain countries as regards the validity of the legal arbitration clause, and the free choice of arbitrators; to the unification of tariff nomenclature; to the desirability of creating free zones in sea ports, etc. In all, twenty-seven resolutions were presented, and although the discussions which took place regarding some of these revealed at the outset different points of view, all resolutions were unanimously adopted.

The numerous reports presented to the London Congress of the International Chamber cover a wide range of subjects. They contain a great deal of interesting, up-to-date information on economic and legal aspects of international trade and offer many valuable suggestions and proposals which if adopted would tend to promote peace and encourage cordial relations among countries and their citizens.

The second meeting of the Chamber was held in March, 1923, in Rome. The two foremost resolutions adopted at this meeting deal with restoration of normal conditions throughout the world and with the stimulation of production. The Congress expressed itself: (1) against the general cancellation or remission of allied debts; (2) for the balancing of national budgets; (3) against foreign governmental loans, and (4), against artificial stabilization of exchange.

The principles of production agreed upon by the Congress were based upon the American theory that individual effort and unhampered use of mechanical aids are essential for increasing production and for making secure a higher standard of living for the people.

The Rome Congress made many recommendations regarding the adoption and application of customs tariffs and regulations. These recommendations, if put in effect, would facilitate the movement of commodities in international trade. A definite code of rules was adopted for international arbitration and conciliation and an International Court of Arbitration was set up, which though but recently established has already helped in settling some important commercial disputes.

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PART II

PRIVATE ASPECTS OF INTERNATIONAL TRADE

CHAPTER XIV

MARKET ANALYSIS

Methods of Procedure.—Success in foreign trade, like success in domestic trade, is dependent upon a careful analysis of the possibilities of the different markets which the manufacturer wishes to cultivate.

One of the best methods of acquiring the needed information regarding a foreign market is to have it investigated by a competent observer. However, as this method involves considerable expense, it is advisable to have the territory to which an investigator is to be sent subjected to a preliminary survey by means available at home. Such a survey permits the elimination of those localities which can not be of any interest to the exporting manufacturer and in which there is no reason for conducting personal investigations. No investigators are necessary to inform manufacturers of heavy furs that the lowlands in the tropics are not a market for their wares nor to tell the makers of lightweight fabrics that their shipments to polar regions are likely to remain unsold.

Sources of Market Information.—For a preliminary investigation at home many sources of information are available. These include various publications issued by the Bureau of Foreign and Domestic Commerce and by other Departments of the United States Government, as well as reports of foreign governments, data supplied by trade associations, banks, mercantile agencies, express companies, trade journals, and books dealing with economic conditions in foreign countries. Many articles have appeared in technical and in popular magazines which may

be of assistance; but these articles should be carefully scrutinized and verified, as many of them are the result of a short visit to a foreign country by some superficial observer, while others have been carelessly compiled from data which were available at the time of the writing of the article. To a certain extent, this also holds true of some of the books purporting to give an accurate description of various lands and their people. The perusal of some of these publications is likely to do more harm than good to those who would use them as a basis for market analysis.

Personal Investigations.—The cost of personal investigation is high; it may be reduced by the cooperation of a number of manufacturers, preferably of allied but non-competing lines, and of their employment of a joint representative. Since the passage of the Webb-Pomerene Law competing manufacturers may also employ such representatives. Desire to effect savings should never overrule other considerations which must guide one in selecting men for the investigating work. Such men must be trained observers, intelligent, painstaking gatherers of facts, capable of distinguishing between essentials and non-essentials, between important and trivial details.

The first item to consider is the established active demand existing in the market for different commodities; this demand may be easily ascertained and it may be reduced to more or less definite terms. But, important as is the knowledge of existing demand, of much greater importance is the recognition of the various forces and factors which have brought it about and which are likely to shape it in the future. The demand is largely determined by the degree of the economic development of the people, and by the occupations in which they are engaged. Advanced communities use typewriters and talking machines, automobiles and cameras, while people in industrially backward countries are buyers of inexpensive textile fabrics, of simple utensils and cheap trinkets.

Items to be Considered in a Market Analysis.—The political conditions in a country, the nature and stability of its government, the degree of protection it offers to foreign enterprises, the commercial law of the land and the way this law is administered by the courts when foreign interests are involved, the condition of transportation facilities, the status of banks and other financial institutions, the height of customs duties, the rigidity of custom house requirements and the treatment of imports by customs authorities, the extent of foreign and national competition, and the attitude of the population towards imported goods are some of the points which must be considered in a market analysis.

Prejudices play an important rôle in influencing demand, particularly in backward countries. Thus, in certain parts of China black and green are signs of impending misfortune; because of this a consignment of needles of good quality and reasonably priced, but wrapped in black paper, could not be disposed of there, and attractive calendars printed on green paper, which an English firm prepared for advertising purposes, were shunned by all.

Buyers in backward countries, when once they become accustomed to a certain kind of package or to a certain form of wrapper, are very reluctant to accept different kinds of containers even if assured by dealers that the articles within them are exactly the same as the ones previously shipped. They can not understand the reason for the change and look upon it with suspicion.

The importance of not overlooking any factor which may influence sales may be gathered from the fact that a few years ago a large consignment of horseshoes was brought back from China because the manufacturer's trade mark—a dragon—was stamped on the shoes. The dragon being the national emblem of China, naturally the Chinese felt averse to having their horses tread upon it.

Changing Market Conditions.—Economic and social conditions change and supplementary data must be continually gathered in order to keep up-to-date a market

analysis once made. Topographic features of a country and its climate remain more or less stationary, but all the other forces and factors which influence supply and demand are in continuous flux. Even a country's topography is modified through the bridging of rivers, the tunneling of mountains, the building of highways, the deepening of harbor channels, the cutting away of forests. Industrially backward countries must be watched not less carefully than the more progressive nations. In Asia and in Africa, as well as in Europe and in South America, the new life beats with an ever-increasing force against the old, undermining the very foundations of social structures, creating new wants and desires and providing means for their satisfaction. Even in countries with centuries of long-established customs, potential demands are being awakened from their age-long slumber and people are beginning to move in a world different from that of their ancestors. Keen observers can detect tendencies in this movement; they can determine the speed with which the changes are taking place; they can gauge the responsiveness and the flexibility of the market.

However, some danger exists in visualizing the peoples of the old world in terms of the new. In the new world we have a more flexible, and on the whole a more intelligent market, a market free from fixed ideas, tastes and prejudices, a market which is alert, quick to adopt improvements and to respond to the offer of new things. The difficulty of breaking down a habit can not be more clearly demonstrated than in the case of corn; even when threatened with hunger, the people of some parts of Europe constantly refused to avail themselves of canned corn, insisting that corn was an article of fodder, unfit for human consumption.

Study of Competition.—An analysis of a market involves a study of the sources of supply of the commodities offered for sale. The exporting manufacturer can easily ascertain the volume and value of importations from different countries, such data being readily available; what is more difficult, but necessary for him to determine, are the

causes for success or failure of his competitors. He must also ascertain whether it would be possible for him to compete on equal terms or whether he would be placed at a disadvantage by adverse tariff legislation, by higher cost of transportation or by any other reason. The amount and character of local production as well as the possibilities for its expansion should also be noted.

Relative Importance of Different Markets.—In determining the relative importance of different countries, each country's population has sometimes been erroneously used as an indicator of the country's demand. It is obvious that, given the same conditions, a larger population presents greater opportunities for sales; but one should recognize the fact that more important than the knowledge of mere numbers is that of the purchasing power of the people, of their standard of living, of the occupations in which they are engaged. A careful study of what the numbers really represent is imperative before any conclusions may be reached as to the value of a market. Thus, a large proportion of the people of South American republics consists of Indians and half-breeds the nature of whose demands differ materially from that of the whites. It has been estimated that while the population of Latin America numbered in 1916 about 83,000,000, the purchasing power of the people was equal to that of about 13,000,000 American residents of the United States. The mere knowledge that the population of China is about four times as large as that of the United States does not give the faintest clue as to what is the effective demand of China for imported goods, nor of what character the goods must be in order to find a market there. Generally speaking, economically undeveloped countries possess little purchasing power; they have but few people willing and able to pay for articles of quality and taste; the majority of the products which may be sold in such countries are cheap wares, necessities and semi-comforts.

Economically backward countries have a comparatively small urban population, and if there is any single indication of

the value of a country for the manufacturers of finished commodities it is the presence in a country of many industrial and commercial centers. The size of a country's urban population may be used with a much greater degree of certainty, as an indicator of its demand for imported finished goods, than the size of the total population.

While the knowledge of a country's general conditions is of great value to exporters, each exporter has his peculiar problems to solve. Each one is interested in specific circumstances which affect the sales of his goods. · Different markets within the same country must be examined. The manufacturer of some specialties may find, in investigating the various ports of Brazil, that Rio de Janeiro is worth cultivating while Bahia or Pernambuco are not likely to repay advertising and selling efforts.

Temporary changes should be carefully noted; a poor crop in one locality, a big strike in another may have a telling effect upon the ability of the local merchant to sell wares and to meet his obligations.

Adaptation of the Product to Market Requirements.—While adaptation of the product to the requirements of the market is desirable and is usually conducive to an increase in sales, it is sometimes impossible and often not profitable for a manufacturer to carry his adaptability to such a degree as to be able to disarm every prejudice and to meet every whim of prospective buyers. Geographic conditions, hereditary influences, legal and ethical concepts are a few of the factors which determine the tastes and fancies of the people, their predilection for some and their aversion to other commodities. But new tastes may be created; objections may be overcome; the mere fact that for a long time people have been using a certain tool or a certain article of apparel does not imply that they will continue using it for all time to come.

Before launching a campaign of education for his goods, the manufacturer should determine how deep-rooted are the peculiarities and the prejudices of a particular market.

Some products may be so foreign to the natural requirements of a place that no amount of advertising and salesmanship will create a demand for them. This suggests once more the necessity of a careful analysis of the market, both in its present opportunities and its potentialities for development. By means of such an analysis and through extensive publicity work, American manufacturers have built up the demand for their goods through the length and breadth of our own country with its variety of climate, topography and ethnical composition of the people; there is no reason why a somewhat similar demand may not be built up in other parts of the world.

Large-scale production of standardized commodities has been an important factor in permitting us to manufacture wares of good quality, adapted to the various purposes in view, while at the same time maintaining fairly reasonable prices and a comparatively high scale of wages. As a rule, our manufacturers are willing to make changes in order to meet requirements if they are satisfied that the volume of business to be gained from such changes warrants the procedure. They can not well depart from this policy, even though it may mean loss of trade in favor of the manufacturers of those countries who use proportionately more hand labor than we do and who can thus adapt, with greater ease and with comparatively little additional expense, their output to the demands of the buyers in different parts of the world.

A refusal on the part of our manufacturers to meet foreign demands has been due partly to the fact that until recently very few of them considered foreign markets in any other light than as places where they could occasionally dispose of goods unsalable for one reason or another at home. However, the value of foreign trade as a permanent source of demand is beginning to be recognized by an ever-increasing number of our manufacturers, who are willing to meet reasonable requests of their overseas customers. It is evident that in most cases deviations from standardized

production involve an additional expense, which is reflected in a somewhat higher price.

Markets for Raw Materials and Standardized Producers' Goods.—Demand for such commodities as wheat, cotton, and lumber, is, as a rule, not created through salesmanship. It is an active demand on the part of those who need the goods, the buyers in most instances searching the markets for sources of supply and being willing to pay prices warranted by market conditions. For a number of such products concentrating points or merchandising centers have been created in London, Liverpool, Antwerp, etc.; to these centers goods are first shipped, and here the deals between buyers and sellers are consummated. From entrepôt cities the wares are redistributed to places where they are needed. It is obvious that the problems involved in the sale of such goods differ materially from those connected with the sale of most of the finished consumers' wares.

Prices for raw materials and foodstuffs are regulated by conditions over which individual shippers have very little, if any, control. These goods, like some of the articles in semi-advanced stages of manufacture, such as metals, leather, etc., have been largely standardized and they do not adapt themselves to processes of individualization. Neither is such individualization as necessary as it is in the case of consumers' articles, where the creation of distinctiveness is one of the essential preliminary steps toward conducting an advertising and selling campaign. In most instances it is impossible to change the appearance of raw materials or of semi-finished commodities so as to make them more attractive to the eye or the other senses of the buyer, or to make them otherwise more acceptable externally to a particular market, and there is little need for making such changes. Producers' goods are bought in accordance with their intrinsic value and their fitness for specific uses in manufacturing; buyers know more or less definitely what they want and are not swayed in their decisions either by the appearance of the commodity or by the sellers' arguments.

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CHAPTER XV

FOREIGN COMMERCIAL LAWS IN THEIR RELATION TO EXPORT MERCHANDISING

Variety of Laws Affecting International Traders.—Knowledge of fundamental foreign laws as they affect business transactions is of utmost importance to traders. In no part of the world does ignorance of the law excuse one from bearing the consequences of one's acts. Such ignorance may often lead to the undertaking of responsibilities which one never intended to assume and to the commission of costly blunders. Fortunately, in that branch of public and private law which governs commercial dealings there exists a certain degree of similarity in many legal systems throughout the world, and within twenty-five years or so developments have taken place which have introduced uniformity in the treatment of at least a few of the contingencies which may arise in connection with the international exchange of goods and services. However, there is room for much improvement; modern commerce is yet burdened with many unnecessary risks due to a divergence of legal conditions which confront business men.

The Great War, which all but undermined the foundations of honor, good faith, and the spirit of reconcilation which characterized the meeting of business obligations in the recent past, has shown clearly the need for knowing in advance the legal rights and liabilities acquired through the conclusion of business contracts in different parts of the world.

Laws affecting international traders embrace a great variety of subjects. They include regulations controlling

the general conduct of business by nationals who go abroad to reside as agents and managers of branches or to travel as buyers and sellers; the domestication of American companies abroad; the establishment and operation of banks; the conclusion and the consummation of sales; the rights of principals in the matter of consigned goods; the extension of credits and the collection of accounts; bankruptcy procedure; the use of bills of exchange and the protesting of drafts; the collection of insurance claims; the rights and duties of cargo-carriers and shippers, of consignors and consignees, of principals and agents; the granting of patents and the registration of trade marks; the arbitration of commercial disputes; the taxation of business enterprises.

Common Law Countries and Commercial Code Countries.—Although many advantages would accrue to the trade of the world from unifying and codifying different commercial laws, England and the United States have thus far been reluctant to cooperate with the nations of Continental Europe in an attempt to bring about such uniformity and codification. One of the main reasons for this may be found in the fundamental difference which exists between the common law systems of the United States and England and the systems of the countries of Western Europe, based as the latter are on Roman law. Western European nations draw a sharp distinction between traders and non-traders, business and non-business transactions; they have special commercial codes which exist by the side of their civil and criminal laws.

The commercial code of France was promulgated in 1807; it served as a basis for the commercial codes of the South American republics and of Holland. Germany adopted her commercial code after the formation of the German Empire; the influence of the German code may be seen in the laws of Sweden, Norway, Denmark, Switzerland and the former Austro-Hungarian Monarchy. The commercial codes of Italy, Spain, Portugal and Roumania show the joint influence of both French and German legislation.

Commercial codes are, as a rule, administered by special tribunals, known as "commercial courts." These courts have registry bureaus where every concern doing business within a certain radius must register. In some instances commercial concerns are required to file periodical reports and sworn statements regarding their financial condition. The advantages accruing from the existence of special commercial tribunals lie in their freedom from technicalities and in their expeditious handling of affairs. The Anglo-Saxon system has no counterpart for such treatment of business differences, the jurisdiction over traders, like the jurisdiction over all other members of society, being vested in the general courts of the land. Decisions rendered by these courts are based upon what may be termed case law and upon isolated statutes. The results are not always satisfactory.

Under the pressure of the demands of modern commerce, both England and the United States are gradually breaking away from their common and case law systems when dealing with commercial affairs. England codified many branches of her law pertaining to trade, the most conspicuous examples of such codification being the Sales of Goods Act, the Bill of Exchange Act, the Partnership Act, the Limited Companies Act and the Warehouse Receipt Act.

The difficulty in the United States lies in the existence of separate state laws; uniformity and definiteness can not be introduced in our own country except through the adoption of any proposed measure by each state in the Union. The Negotiable Instruments Act and the Warehouse Receipts Act are two measures which have been so far most generally accepted.

Rights and Duties of Principals and Agents.—There is substantially little disagreement in the laws of different countries regarding the rights and duties of agents and principals toward each other and toward third parties. The agent must carry out the instructions of the principal and in the absence of specific directions must follow the usual

course of business. He must do the work with that degree of diligence and skill which he would employ if he were attending to his own affairs. The agent must keep in touch with the principal, informing him of anything which may be to his interest and rendering him accounts. He has the right to a remuneration for his services.

The principal must pay the agent and indemnify him against any losses which the latter may incur in executing the acts of agency; the agent has a lien on the goods entrusted to his care, for his commission and for any advances and expenditures which he may have made in the exercise of his functions as an agent.

As a general rule, if the agent acts within the scope of his authority he binds not himself but the principal. However, according to the usage of trade in England, an agent acting for a foreign principal is personally liable for all contracts unless he can prove that in concluding these contracts there was specifically no intention of binding him.

Differences occur in connection with defining the scope of the agent's authority and of the principal's rights and responsibilities when an agent concludes a contract in which he does not disclose the name of the principal. In the United States, Great Britain and the British Colonies, the law considers that the principal may be held liable and that he may demand the enforcement of contracts concluded by the agent; in countries governed by the civil law an opposite view prevails.

The agent's authority is defined in the power of attorney granted to him. To be valid in a foreign country, the power of attorney must conform to the legal requirements of that country. The most common of these requirements are: (1) that the instrument should be written in the language of the country in which it is to be used or be provided with a certified translation; (2) that it be attested by a notary public and be legalized by the consular officers of the foreign country.

Because of the distance which separates an overseas

agent from the principal, much judgment and discrimination should be exercised in defining the scope of the agent's authority. Powers granted to him must be sufficiently broad not to hamper him in doing his work or in coping with the various contingencies which may arise in connection with the discharge of his functions, and yet, they must not exceed what is strictly necessary for these purposes. An overseas agent is out of reach of the principal, and in case of incompetency or bad faith the granting of too much power may react disastrously upon the principal's business.

The advisability of knowing the agency law of the country where the agent resides can not be too strongly emphasized, as in many instances the agent's rights, responsibilities and duties are interpreted in accordance with the laws of that country and not of the country where the document creating the agency is made.

Sales Contracts.—In most countries sales contracts are valid as long as they make clear the intentions of the contracting parties, no adherence to specific forms being required. Many contracts are the result of an exchange of letters; the initial step is usually an offer by the seller. When this offer is accepted by the buyer a binding sales contract is concluded. If the purchaser places an order in response not to a "firm offer" but to a price quotation, a price list, an advertisement or what is known as a "free offer," in which the seller merely states the conditions on which he is prepared to sell certain goods, then the seller's acceptance of the order is necessary to form the basis of a contract.

Oral as well as written contracts may be entered into, though most countries have a provision similar to that contained in our Statute of Frauds; i.e., if the price is above a certain amount, the contract, in order to be legally enforceable, must be in writing unless part payment has been made or there has been a partial delivery and acceptance.

When buying and selling in foreign countries one should understand that the civil code countries hold sellers to a stricter liability than the common law countries. However,

even the English law has abandoned its old ruling " let the buyer beware " and requires compliance with certain conditions and warranties on the part of the seller, the most important of which are that the goods must correspond to sample or description or, if ordered for a particular purpose, must be fit for that purpose. The British " Sales of Goods " Act of 1893 provides in addition that goods must also be free from defects rendering them unmerchantable and which defects would not be apparent on reasonable examination of the sample. The remedies open to buyers of goods, which are not in accordance with stipulated quality, or which possess some latent defects, are either the rejection of the article in question or a claim for a reduction in price. Under certain restrictions as to the time and the manner in which notice must be given by the buyer, his acceptance of the merchandise does not release the seller from obligations to make good any defects which may be subsequently discovered in the articles.

According to the laws of all commercial nations, the offer of goods for sale implies the possession of the right to sell them; should a person who bought in good faith be later dispossessed because the seller had no title to the goods, the purchase money must be returned to him.

Refused Shipments.—One of the risks involved in the shipments of goods abroad is the possibility that their acceptance may be refused by foreign buyers. This refusal may be due to an honest difference of opinion between the buyer and the seller regarding the quality of merchandise or it may be the result of the buyer's desire to gain an undue advantage or to avoid the fulfillment of an unprofitable contract. Non-acceptance of goods offered for delivery is not confined to foreign trade; it is particularly prevalent in a period of falling prices. Trade's experience with refused shipments and cancellations which followed the collapse in prices in 1921, forms one of the darkest pages in the business history of the world.

Refusals to accept goods take on a particularly sinister

aspect for shippers when they lead to the stranding of wares thousands of miles away from the country of shipment.

The legal rights of a vendor when the buyer refuses to accept the purchased merchandise vary somewhat in different countries. The commercial code of Argentina has been selected here for illustrative purposes. According to this code, the seller has an option of either commencing an action to compel the buyer to fulfill his contract, i.e., to pay the purchase price, or to ask for an order of the court declaring the contract rescinded and sue for damages. In practice the first alternative is of no value to the seller as there is no provision in the law which would make it possible to compel the buyer to pay the purchase price even if a judgment to this effect is rendered against him. The only remedy which the vendor thus has is the rescinding of the original contract; he may treat the buyer's non-compliance with the judgment as an additional ground for such action. A contract can not be rescinded except through a judicial order; such an order is granted when proof is adduced of a breach of contractual obligations. As the rescission of a contract carries with it a right to recover damages against the offending party, the purchaser is certain to set up a defense showing that he is justified in refusing to accept the merchandise. The establishment of a breach may thus involve long and costly litigation. Pending such litigation the seller can not dispose of the merchandise, as according to the principles of civil law, the failure of one party to fulfill his part of the contract does not release the other party from contractual obligation; the seller must hold the merchandise for account of the buyer until the termination of the litigation. It is hardly necessary to point out how great are the losses which such a state of affairs may entail for an overseas seller.

In order to lessen this evil, it is possible to take advantage of a clause in the Argentine Commercial Code which provides that parties to an agreement may stipulate in the contract that upon the failure of either party to carry out his obligations the other party may treat the contract as

rescinded. The seller may then proceed to resell the merchandise for whatever it may bring and sue the original purchaser for damages. There can be no doubt regarding the advisability of including a rescission clause in the contracts of sale concluded with Argentinian customers, especially in view of the fact that an action to obtain rescission of a contract through court decision is costly, is regulated by very technical rules of pleadings, and is subject to many interdeterminate motions and appeals.

Trade Marks.—For a proper understanding of the foreign trade mark situation, one must realize that a great many foreign countries have trade mark laws which differ radically from the law existing in the United States. In this country the right to a trade mark is based upon its first adoption and use; its registration in the United States Patent Office merely establishes convenient evidence of ownership which is subject to cancellation if an action is brought by someone who can prove that he had adopted and used the trade mark previous to its adoption and use by the registrant. Besides conferring evidence of ownership, the registration of a trade mark in the United States provides penalties and awards of damages in the event of infringements.

In Central and South American republics and in many European countries, the person registering a trade mark becomes the lawful owner thereof whether he has or has not used the trade mark in question. Registration confers the property title upon the registrant, who can then sue the original user of the trade mark as an infringer and prevent him from selling goods under this mark. In most of those countries where registration of a trade mark confers ownership, there exists a provision in the law stipulating that an application for registration may be opposed by parties whose right would be affected by the grant of registration, or the law provides that within a limited time proceedings for annulling the registration may be taken. This is deemed sufficient to guard against the improper use of the law and to protect those who may oppose registration on the ground of

prior use of the trade mark. However, such provisions are of comparatively little value to a foreigner who usually has no knowledge that his trade mark has been registered until after the expiration of the time limit within which he could oppose the registration or take action to have it annulled. There is only one way for protecting oneself in such countries against what has been termed "trade-mark piracy" and that is by registering one's trade mark at as early a date as possible.

In Great Britain and France, ownership in a trade mark may be acquired either by use or by registration, but the exclusive right to use can not be enforced unless the mark has been registered. A number of countries require as a prerequisite to the registration of a foreign trade mark a proof that the mark has been registered in the country of origin. Australia, Bulgaria, Cuba, Denmark, Finland, Greece, Guatemala, Honduras, Norway, Panama, Porgutal, Serbia, Spain, Sweden and Switzerland belong in this group.

The International Trade Mark Convention, which includes among parties thereto the United States, Great Britain, France, Italy, Spain, Belgium, Holland, Japan, Sweden, Norway, Denmark, Switzerland, Portugal and Serbia, offers little relief against the usurpation of trade marks. The provision in the convention which is of the greatest value to proprietors of trade marks is the one which gives them a period of four months within which to register in other countries a trade mark which has been registered in their own country and protects them against any piracy of the mark during this interval of time. Beyond this the convention does not go; it merely stipulates that the trade marks of citizens and residents of each of the countries which are parties to the convention shall be protected in each country in the same manner as domestic trade marks are protected.

Although in most countries the requirements of registration are comparatively few and not very complicated, it is advisable to entrust the registration of a trade mark to a

competent lawyer residing in the country where registration is sought. As a rule, registration fees are small and the term for which registration is granted is limited to from ten to twenty years; this is subject to renewal if the trade mark is in use and to cancellation if it is not used.

Those who willfully infringe on duly registered trade marks subject themselves in most countries to criminal as well as to civil prosecution and punishment. They are liable to the payment of damages, and an injunction may be obtained restraining them from future infringement.

Regulations as to what may and may not be adopted as a trade mark vary somewhat in different countries; one of the most common prohibitions is that of registering a mark which so closely resembles one previously registered as to cause confusion and tend to deceive. Other marks which are not admitted to registry include scandalous matter or representations contrary to good morals; letters, words, coats-or-arms, or armorial bearings of royalty, and public or official insignia used or that may be used by the state; portraits of living persons if used without their consent.

As a general rule, a mark must have a distinguishing and identifying quality. It must not be a geographical name or a word in general use.

Keeping in mind legislative restrictions, it is the task of each manufacturer or merchant to select a mark best suited for his purpose. Some trade marks used in domestic business are not appropriate for export trade; thus, for instance, " Uneeda " or " Tacoma " mean nothing in Latin-American republics and they are inferior for creating good will there to such a mark as " National " which has the same meaning in Spanish and Portuguese as in English.

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CHAPTER XVI

THE MANUFACTURER'S ORGANIZATION FOR EXPORTING

Relations of the Export Department to Other Departments.—Exporting, though fundamentally not different from selling in home markets, presents so many peculiar problems that it is best for a manufacturer to handle his export business through a separate department. This department should be headed by a man of knowledge and experience, who can devote to the management of export business all his time, thought, and energy. An export department is like any other division in a business organization in that it must not be permitted to act independently; it should be closely connected and coordinated with the other activities of the concern. Some go so far as to maintain that since the main function of an export department is the promotion of sales, it should be controlled by the general sales manager of the firm. The wisdom of such an arrangement is doubtful, even if one assumes that the sales manager is a man of exceptionally broad vision who can see clearly beyond the confines of his own country. The sales manager has enough to do in directing the sales force at home, attending to and shouldering the various responsibilities in the domestic branch of the business. Another difficulty connected with placing the export department under the control of the general sales manager lies in the fact that there are few, if any, export managers worthy of the name who would be willing to work under such an arrangement.

The supervision of the export department is usually vested in the general executive division of the house which controls all the activities of the concern, whether purchasing, advertising, financing, operating, domestic merchandising,

importing or exporting. Such control insures the working of all departments without waste or friction and with the efficiency which comes from coordinated, concerted action.

Subsidiary Sales Organizations.—Some corporations doing an export business have found it advantageous to organize subsidiary companies to handle their foreign sales; such are, for instance, the United States Steel Products Company, a subsidiary of the United States Steel Corporation, and the United States Rubber Export Company, a subsidiary of the United States Rubber Company. Subsidiary companies also handle the exports of the Standard Oil Company, the International Harvester Company, and similar concerns. The plan can be adopted only by large enterprises which are able to stand the heavy overhead expenses it involves and which seek extensive foreign connections. A subsidiary may also be employed by a number of manufacturers combining for export under the provisions of the Webb-Pomerene Act.

Divisions in an Export Department.—A highly organized export department consists of many divisions, such as:

1. The traffic or shipping division, which has charge of the exterior packing and marking of goods, their proper routing and the securing of transportation; this division attends to the delivery of orders to the transportation company, to the securing of insurance, when such is to be taken out by the exporting manufacturer, to the preparation of shipping papers and documents.

2. The advertising division, which either alone, or preferably in cooperation with outside advertising agencies, evolves plans for foreign advertising campaigns, prepares copies for foreign advertising, keeps a record of the efficacy of advertising media and methods. The foreign advertising division often forms an integral part of the general advertising department of the house; such an arrangement has been found very satisfactory, as it eliminates the duplication of functions and permits the utilization of the experience of the advertising manager and his associates.

3. The credits and collections division, which passes upon foreign credit risks and supervises the collection of accounts. The foreign credit division is usually a part of the general credit department of the house and is under the direct supervision of the credit man and not of the export manager.

4. The accounting and statistical division, which keeps a record of all data pertaining to the history of export transactions, and which cooperates with the general cost accounting and auditing departments of the enterprise.

A well planned export department usually has a division whose purpose is a careful analysis of the world as a market for the firm's products. Some of the problems which such a division must consider are: Where are the goods most likely to find buyers? What are the best methods to use in order to create a demand in one or another part of the world? Should some changes be made in the goods in order to make them salable abroad and if so, of what nature should these changes be?

In equipping the export department with proper tools one should not overlook the acquisition and maintenance of an export library. A library containing some of the best books and magazines dealing with the technique of exporting and importing and with economic conditions in foreign countries, a library provided with maps, gazetteers, governmental, domestic, and foreign publications, is of inestimable value to the export manager and his subordinates when they have to deal with various problems confronting them in the disposal of their products abroad.

The Shipping Clerk.—An employee subordinate to the export manager upon whom devolves the execution of important detail work is the shipping clerk. He has usually full charge of the packing and marking of containers, boxes, etc., and the preparation of shipping documents; he attends to the fulfillment of consular requirements and the supervision and delivery of goods to the transportation company. Some shipping clerks are entrusted with the work of selecting

routes and engaging cargo space from steamship companies. Defective packing and marking, mistakes committed in the documentation of shipments have frequently caused loss of trade in the past and undone the work of trade promotion, however successfully this may have been carried on; this shows the need of carefully selecting not only executive officers but also those men whose positions are subordinate and whose duties are of a more or less routine character.

Mailing Lists.—One of the essentials of an export department is the possession of carefully prepared mailing lists. There are many sources from which such lists may be obtained; the most important of these are: the Bureau of Foreign and Domestic Commerce, the Philadelphia Commercial Museum, the National Association of Manufacturers, and similar associations, large New York banks having foreign trade departments, and export trade papers. These sources are available to manufacturers who are members in a national trade promoting organization, advertise in an export paper and have dealings with one of the larger banks financing shipments. It is needless to emphasize the desirability of all such connections for those who seek permanent foreign outlets for their goods. Mailing lists may also be obtained from firms specializing in the preparation of such lists and offering them for sale. Discretion should be exercised in the purchase of mailing lists; they should be bought only from concerns which are known to be reliable and painstaking in keeping their lists up to date and including in them trustworthy foreign buyers and agents. A manufacturer seeking foreign connections may also use with advantage trade directories, such as *Kelly's* or *Who is Who in International Trade*, etc.

It is best to keep mailing names on card indexes, dividing them into two files, prospects and customers, and arranging them geographically by countries and by cities in each country. Each card should contain the name, address and business of the concern, some indication as to the concern's nationality, size, and financial status, records of correspon-

dence and, in case of a customer, of orders, shipments, financial arrangements, meeting of obligations.

Files.—All letters pertaining to a prospect, a customer or to any other correspondent, such as a transportation company, a forwarding agent, or a bank, should be grouped together and filed and indexed in such a way as to be readily available.

A good export department has files containing records of foreign customs and consular requirements, best routes to reach given markets, methods of packing, marking and documenting consignments. Each order is carefully indexed as to the time when it is received, when the ordered goods are ready for shipment, etc.

Engagements undertaken must be carried out in the United States and Great Britain, even in the case of war or other *force majeure* which makes the execution of a contract exceedingly difficult; in accepting an order it is wise to provide for an exemption from liability to cover such contingencies.

Shipping dates should be strictly adhered to. In some countries failure to ship on time constitutes a legitimate ground for the cancellation of the order or for a claim for damages. If no allowance for later shipments is provided, an authorization to ship at a later date than the one specified should be obtained before the shipment is made.

Location of the Export Department.—A divergence of opinion exists as to the best location for an export department; some favor its proximity to the factory while others prefer a separate organization at a seaboard terminal. There are advantages and disadvantages in either location, and the policy to be adopted must largely depend upon the character of the manufacturer's exporting business, the nature of the goods produced by him, the distance separating his factory from the coast, etc. The advantages of a port location may be summarized as follows:

1. An export manager, by being located at seaboard, can more easily obtain accurate information regarding the

requirements of foreign markets and the conditions surrounding the sale of goods in these markets. The majority of our export departments are located in New York; such location permits personal contact with the executives of many other foreign departments maintained there, with the officials of large banks financing foreign trade, with men in charge of steamship companies. This contact makes possible an exchange of views and experiences, and the receipt of suggestions.

2. It gives an opportunity for meeting foreign buyers who come to New York; few buyers are willing to travel inland as long as they can find what they want in New York; it also makes possible the maintenance of close relations with export commission houses, with branch offices of foreign importers and with other concerns engaged in foreign merchandising.

3. It allows the handling of shipments by the manufacturer's own force or, if the work is entrusted to a forwarding agent, a closer supervision over the latter's activities. This often means better opportunities to secure proper freight space at advantageous terms, greater certainty that the documents will go forward on the same steamer as the goods, and the possibility of last-moment rectification of any errors which may occur in the shipment.

The advantages of plant location are:

1. It permits the export manager to frequently confer with and impress his views upon the other officers of the firm, upon men in charge of manufacturing, of granting of credits, of conducting advertising campaigns, etc. The export manager is also in a position to participate in the formulation of the general policy of the enterprise, a circumstance which may be of far-reaching consequence to the development of the firm's export trade.

2. In case of a misunderstanding regarding the terms of a foreign order, the export manager can correct it without loss of time. Misunderstandings are quite frequent when instructions are handled by those who are not familiar with

exporting business, and the proximity of the export manager to the place where orders are to be filled is very beneficial.

3. It permits supervision by the export manager of the preparation of goods for shipment.

FOREIGN CORRESPONDENCE

An efficient correspondence department is one of the main assets of a modern business concern. The development of many enterprises has been retarded and failure has overtaken some because of the inability of their correspondence departments to function properly. A timely, well-worded letter may often save a seemingly hopeless situation, just as a letter expressed in unappropriate language or of unwise content may bring very disastrous results. The need of having capable, experienced correspondents is particularly great in overseas trade, where thousands of miles often separate the writer of a note from its recipient.

An offensive letter is not easily forgotten; and there are innumerable ways of making a letter offensive in the estimation of the man across the sea, unless one understands his point of view and his methods of doing business, unless one is familiar with the standards of courtesy prevailing in the country where he resides.

While foreign letters, like domestic ones, should be businesslike in tone, one should not overlook the fact that in many localities American business methods are mistaken for rudeness. Foreigners feel that they are entitled to the same polite treatment from American business houses as they receive from the houses of other nationals whose ideas of courtesy more nearly approach their own. The clients of a firm usually expect letters which denote friendliness and personal interest; these should not be confused with familiarity.

Much foreign correspondence is of routine character and it may be safely entrusted to efficient subordinates. However, only experienced men in responsible positions should handle such mail as is intended to promote sales, to

collect overdue accounts, or to adjust claims and business disputes. A poorly written sales letter usually goes into a waste basket; such baskets are a part of the equipment of foreign offices not less than of offices in the United States. As to collection and adjustment correspondence, if it is not handled in the right way, it is most likely to create ill will, thus acting as a bar to an amicable settlement of accounts and business differences; it often leads to expensive, unnecessary lawsuits and to a loss of desirable customers.

Sales Letters.—Successful sales letters, especially in the case of consumers' goods, emphasize the commodity rather than the price. There has been a tendency toward individualizing, for selling purposes, not only specialties but also such staples as sugar, salt, or soda crackers. The sales letter must bring out the points of superiority of the article for which orders are solicited; it must show in what respects it differs from similar commodities already on the market; it must indicate clearly why the buyer should give the article his preference. Underselling is not the only kind of competition and it is certainly not the best. Orders are often placed for more expensive wares in preference to cheaper ones if buyers are convinced that the first are more desirable from the standpoint of material, workmanship, appearance, adaptability to the purpose or any other charteristic.

Foreign sales letters must be accurate, concise and comprehensive; they should be written so clearly and cover the ground so thoroughly as not to necessitate requests for additional information. Any doubt left in the mind of a prospective buyer as to the nature of the goods and as to terms on which they are offered means loss of time and often loss of sale. However, the whole story need not be told in the first letter; a follow-up system may be used; the first letter may introduce the product and create an interest in it; it usually quotes prices and gives the terms; subsequent letters emphasize services which the manufacturer is prepared to give in order to assist in the resale of goods, exclusive ad-

vantages which the articles possess, etc. No facts should be omitted which would assist the foreign correspondent in arriving at a decision; many details of little value in domestic trade play an important rôle when one deals with an overseas prospect. Thus, for instance, the foreign buyer must know what the goods weigh and measure per unit, how many units go into a case or any other external container, and what is the size and the gross weight of each container. Unless he possesses this information, the foreign buyer can not tell whether he will be able to meet the requirements of the customs authorities and of the transportation companies and whether the price quoted is likely to yield him a margin of profit.

Technical terms should be used sparingly, as the meaning of these may be entirely unknown in foreign countries.

Circular Letters.—Circular letters are one of the least expensive but often one of the least desirable methods of bringing goods to the attention of foreign agents and buyers. Such letters, in order to produce best results, should be addressed to a well-selected list of firms, that are most likely to be interested in the proposition. An indiscriminate circularization of all concerns in a locality irrespective of their financial responsibility, their general standing, or whether they are retailers, jobbers, agents or importers is not likely to win the support of the best firms in the market. Such circularization may result in many inquiries, but the inquiries must be scrutinized carefully before prices and discounts are quoted, samples dispatched or any definite commitments made by the exporting manufacturer. Unless he is careful, he may make the mistake of quoting a rock-bottom price to a retailer, thus killing the possibility of establishing profitable connections with an importing house, or he may grant an exclusive agency to a man whose only claim for consideration is his ability to write a plausible letter and his command over sufficient funds to buy a postage stamp.

To be successful, circular letters must avoid the appearance of mimeographed communications; "form" or "facsimile" letters produce, as a rule, a less favorable impression upon the addressee and are more likely to remain unread than letters which possess a personal touch; but the personal appeal must not be overdone.

Handling of Foreign Mail.—As a general rule, every letter coming from abroad should go to the export manager's desk, the envelope being attached to the letter. This is important, as frequently the envelope may give the only indication of the exact place from which the letter has been sent; often more than one country has a city bearing the same name and the foreign correspondent may fail to specify the country in his letter.

All incoming mail not written in English must be carefully translated so that there may be no misunderstanding regarding the nature of the foreign correspondent's inquiry, order or complaint. An intelligent reply can not be sent to a letter the exact meaning of which is not known. Mistakes have often been made by persons, who while they admit that they can not write in French, Spanish or any other foreign language, consider themselves competent to read and to interpret foreign letters.

Outgoing correspondence is usually handled in special envelopes so as to distinguish it from domestic mail and to insure the prepayment of a proper amount of postage. A letter should always have sufficient postage to enable it to reach its destination; this is an economy of time and money; the lack of postage may even create ill will.

Export Sample Warehouses.—Export sample warehouses are established for the purpose of acquainting foreign buyers with the products of the exporting country; they may be located either at home or abroad; but their location must always be such as to be within easy reach of those who are engaged in the purchase of foreign goods. When located in the home country they offer to the visiting merchants an opportunity for conveniently examining at some central

point the various products in which they may be interested. Besides acquainting buyers with goods, sample warehouses usually undertake the actual bringing together of home manufacturers and merchants, and foreign importers. Many warehouses have taken upon themselves the rôle of agencies, accepting orders and attending to the shipment of goods purchased through them.

Export sample warehouses originated in Germany, the first of such undertakings having been organized in 1881 in Stuttgart. The Stuttgart warehouse soon established branches in different parts of Germany and in the Levant. The idea took root and many other German warehouses were opened, both in domestic and in foreign trade centers. Other European countries and the United States followed the example of Germany. Some of the warehouses were given up because they did not fulfil the expectations of those who promoted them; such were, for instance, the export sample warehouses established about twenty years ago at Caracas and Shanghai under the auspices of the National Association of Manufacturers of the United States.

The Bush Sales Corporation and the Bush Terminal.— The most successful of sample warehouses existing at present in the United States is the Bush Sales Corporation. This corporation should not be confused with the Bush Terminal, which is a separate organization.

The Bush Sales Corporation is located in the midst of New York's commercial activities. In its enormous building hundreds of manufacturers display their goods and offer them for sale. Each floor is devoted to certain lines of merchandise and is in charge of a manager under whom works a competent sales force. Competitive articles are displayed; this attracts buyers as it enables them to easily compare values and to place their orders with those firms whose offerings they consider most advantageous. Most of the goods displayed are shopping line goods, specialties, novelties, wares of style and fashion. In connection with the Bush Sales Organization there has been

established an international merchandise exchange service, which, for a small fee, supplies foreign buyers with a card index of American manufacturers who are clients of the exchange. One part of the sales building is devoted to an international buyers' club where foreign purchasers and American manufacturers or their representatives may conveniently meet for the purpose of conducting negotiations. The concentration of thousands of various commodities under one roof saves foreign buyers much unnecessary traveling. By thus facilitating the work of foreign customers, the Bush Sales Corporation stimulates business and performs a useful function in the commercial life of the nation.

The Bush Terminal is located in Brooklyn, covering a site of 200 acres and providing a most complete equipment for receiving, warehousing, conditioning and distributing goods to and from the port. It undertakes for its clients the work of unloading, storing, insuring, re-marking, and re-shipping goods. A unified control over railroad, wharfage and storage facilities permits the Bush Terminal to perform its many functions most expeditiously and at a low operating cost.

Trade Cruises.—The fitting out of a ship with exhibits of different manufacturers and the sending of such a ship on a trade cruise is a development combining the services of a commercial fair and of a traveling salesman. The plan is best adapted for promoting sales of such commodities as tools, implements, machinery and various specialties whose uses and advantages need to be demonstrated before people can be induced to buy. The exporters of different European nations have at one time or another resorted to trade cruises as a means for bringing their wares to the attention of prospective buyers; their enterprises have sometimes received governmental support. A few such cruises have been undertaken since the conclusion of the armistice.

In order to be successful, the scheme must be carefully planned by men of wide experience and good reputation, and it must have adequate financial backing. While it

offers to individual exhibitors the advantages of collective publicity, it is obvious that this publicity must be of the right kind; by the sheer force of its magnitude it is bound to attract attention, and unless all the exhibits and exhibitors are of the right kind, a trade cruise may do more harm than good.

Those who participate in the enterprise should recognize that even if the floating exhibition is all that it can be from a representative standpoint, it is at best only a "passing show." It gives foreigners a chance to see the goods, and exhibitors an opportunity to effectively distribute literature and to personally approach buyers; it offers facilities for obtaining first-hand information regarding the character of foreign demand and supply and the best methods for reaching foreign distributors and consumers; but no lasting benefit can accrue from participation in such a cruise by those manufacturers who are not able and willing to follow it up by an aggressive selling campaign, or who are not provided with efficient organizations capable of maintaining permanent foreign trade.

The French have developed the idea of the traveling fair by having dispatched an exhibit train across Canada in 1921. A movement is on foot in the latter country to equip a similar train for use in France, Belgium, and Great Britain. The Czechoslovaks also resorted to an exhibit train in their recent campaign to push the sale of their products in Poland and in Balkan countries. The train consisted of fifteen cars, equipped with show-cases and carrying samples of products manufactured by seventy-seven foremost firms of Czechoslovakia.

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CHAPTER XVII

EXPORTING THROUGH DOMESTIC INTERMEDIARIES. EXPORT MERCHANTS

The Rôle of Export Merchants in the Past.—The world owes a debt of gratitude to the adventurous merchant shippers of old, who, at the time when nature and men conspired to keep communities apart, braved innumerable dangers in order to carry on an exchange of products between the East and the West. The traders of Phœnicia, of Judea, of Carthage, of Genoa, of Venice, of Lisbon, of Rotterdam, of the Hanseatic League, and of London, all contributed their share toward the bringing together of distant producers and consumers. Over unknown, trackless seas, across deserts, through primeval forests did the traders of antiquity and of the Middle Ages move their wares from one solitary center to another, contending with the fury of the storm, combating the attacks of wild beasts, of brigands and of pirates, sometimes succumbing to these hardships, but often overcoming what seemed to be unsurmountable obstacles. While it was for the purpose of making profits that they risked their all, often their lives, the result of their courage, of their initiative and enterprise, of their indefatigable efforts, was the gradual breaking down of the natural and artificial barriers which separated the world into hostile groups. The activities of merchant shippers raised the standard of living in the communities which they served, by placing at their disposal products other than those of the immediate habitat. These activities created and supplied a desire for the products of far-off lands and enlarged the material welfare and with it the intellectual horizon of the people.

In more recent times merchant shippers, or export merchants, as they are known in the United States, have done much valuable work in building up the foreign trade of Great Britain, Germany, and other leading commercial nations. The validity of their services has been questioned of late and a number of agencies have arisen which challenge their position.

Present Status of Export Merchants.—Export merchants still play an important rôle in international trade. They perform many useful functions which make their services desirable to manufacturers who wish to sell their goods in foreign markets without assuming the risks of such sales.

It is especially when dealing with backward countries, in which commercial and banking facilities are not well developed and where the financing of business presents many difficulties, that the export merchant is a most useful intermediary. His position has been materially weakened in those places where there are large importing firms; these firms possess a sufficient amount of capital and credit to enable them to deal directly with foreign manufacturers. Regularity, stability, and security of business tend to eliminate the uncertain but at times very large profits made by export merchants.

Manufacturers who wish to obtain a foothold in foreign markets may begin by selling through merchants; but they should recognize that the security of the position gained by them depends upon their utilization of various other agencies which have been made available to them through improved means of communication and transportation, through the spread of advertising and the rise of many large commercial centers with adequate banking and warehousing facilities, with importing firms, local agencies, etc.

Organization of Business.—Inasmuch as an export merchant buys goods on his own account for the purpose of reselling them, he assumes the risk of price fluctuations. In order to succeed he must possess keen judgment, an ability

to interpret correctly economic conditions in his own as well as in other countries of the world; and he should be a good organizer. His business requires, besides a main office with its various departments, branches both at home and abroad. Through these branches the export merchant is able to keep in touch with the needs of particular markets. Branches facilitate the work of the credit department in acquiring information regarding the financial status of credit seekers; they help in collecting overdue accounts and in adjusting disputes between exporters and foreign buyers.

The main office of the export merchant is usually located in one of the larger seaports. In this office decisions are made regarding the general policy of the concern and here is concentrated all supervisory work. Besides the executive and financial departments, the main office has many other divisions attending to such operations as the buying, warehousing, selling and shipping of goods. Export merchants have found out that one of the most satisfactory ways of grouping their force is by territorial divisions; thus an exporting house may have a South American section, a Far Eastern section, an Australian section. Members of each section, by specializing in a particular region of the world, can learn more quickly what are the requirements of this region relative to the preparation, packing, and marking of the goods, the making out of documents to conform to customs and consular regulations, etc.

Export merchants seldom limit their operations to one line of merchandise; they usually handle any and all goods which are likely to prove profitable. If they specialize it is usually in catering to certain well-defined markets. Such specialization gives them an opportunity to acquire a hold over some selected territories; this is a more satisfactory arrangement than spreading over a wide field.

At present there are relatively few export merchants in the United States. In England and in Germany many such merchants combine the functions of a merchant with those of a banker. They extend credit to foreign buyers, for

which service they charge commission and interest. Foreign firms are left free to buy from any sources which they may consider most advantageous.

EXPORT COMMISSION HOUSES

Functions.—Export commission houses are primarily representatives of foreign importers in whose behalf they act in the exporting country. Their main function is the purchase of goods in accordance with instructions received from foreign concerns, the latter paying them a commission for their services. Export commission houses are familiar with the best sources of supply from which they may obtain the goods needed by their clients abroad, their information being kept up to date through special investigations as well as through a perusal of trade periodicals, directories, etc.

Export houses keep their foreign customers posted concerning special offerings of American manufacturers. Buying instructions which they receive from abroad may be either to purchase from a named concern, or to place the order wherever they may obtain most advantageous terms. Owing to the increase in the number of widely advertised trade-marked and branded goods, the trend is toward making instructions from abroad specific, thus leaving little room for the exercise of discretion on the part of commission houses.

Export commission houses, besides purchasing goods, attend to all the details connected with their shipment; they instruct manufacturers regarding the packing and marking of the wares, engage cargo space, prepay freight, insure merchandise and attend to its clearance through the custom house.

In many cases export commissioners pay manufacturers cash upon delivery of goods, they themselves extending credit to foreign importers. They draw thirty to ninety days' drafts instructing bankers to turn over to importers the bills of lading and other documents upon their acceptance of the drafts. The services of the export commission houses are especially valuable where the importer needs a number

of commodities from different manufacturers, each order in itself not sufficiently large to warrant direct dealings. By combining small shipments the export commission house effects a considerable saving for the importer in handling and freight charges. Many importers before placing their orders prefer to know the c.i.f. price. By complying with the request for c.i.f. quotations, the export commission merchant often goes outside of the regular sphere of his activity and approaches in his functions the work of an export merchant. He differs from the latter in that his buying is contingent upon an order which he has from an importer abroad. But in purchasing commodities, he acts, as does the export merchant, on his own initiative as principal, his reward in such cases being not a commission but the difference between his quotation and what the goods cost him plus insurance and freight. By quoting c.i.f. prices, export commission houses enter into competition with export merchants and with those manufacturers who sell direct. In order to meet this competition they must be satisfied with a narrow margin of profit. In case of specialties, they usually refuse to give c.i.f. prices as it is difficult for them to ascertain the freight charges on specialties before the goods have been packed and the packages weighed.

Methods of Operation.—Export commission houses usually maintain branch offices in foreign countries. In common with export merchants, they do not attempt to serve the whole world but concentrate their attention on a number of selected markets. Some export commission merchants have their best connections in Australia and New Zealand, others in Argentina and Brazil, still others in India or China. As a rule, export commission merchants are not averse to handling any kind of merchandise for which they receive orders; however, many houses have in recent years specialized in certain products; they have found such specialization desirable, as in order to purchase successfully, export houses need expert buyers. No house can very well have such buyers for every line of merchandise.

Specialization in products may be due at times to the ability of the branches or agencies of the export house to push certain kinds of goods more satisfactorily than others. There are at present commission houses exporting such groups of commodities as machinery, automobiles, clothing, and drugs.

Remuneration.—The rate of commission charged by export commission houses varies from 2 to 5 per cent, the rate depending upon the size of the order and upon the amount of work which its execution may entail. Export houses prefer large orders even though these may mean a smaller rate of commission. It takes about the same amount of time and effort to handle a small order as a large one, as both must pass through the various departments of the house, i.e., credit, buying, invoicing, shipping, bookkeeping,

MANUFACTURERS' EXPORT AGENTS

Selection of Export Agents.—A manufacturers' export agent represents, in the capacity of an export manager, a number of firms. He is often called a combination export manager. He should be selected only after a careful investigation of the qualifications of the various men who may be available. A personal interview with the man under consideration is highly desirable as such an interview often reveals better than an exchange of many letters whether the man is fit for the position. The combination export manager must be a man inspiring complete confidence in the manufacturer as he can not be of real service unless he is initiated into the business policy of the manufacturer, unless he is acquainted with his methods of buying materials and supplies, of extending credits, of processing goods, etc.

The main advantages of employing a combination manager instead of maintaining one's own export department are: (1) such an arrangement is less expensive; (2) it often permits the employment of a better man; this is particularly true in the case of small firms which can not well afford to

maintain at the seaboard selling organizations headed by men of knowledge and experience.

The expenses of a manufacturers' export agent are usually prorated among those who entrust him with the conduct of their business. His profits come from commissions which he gets on sales made through his efforts.

Different Types of Export Agents.—There are different types of Manufacturers' Export Agencies. Some agents have no extensive organizations; they are individuals residing in a seaport and having for their function the distribution of catalogues, circulars, and price lists among firms engaged in exporting; other agents are established in foreign countries where they act as resident salesmen for a group of manufacturers; still others are large concerns having extensive selling, shipping and financing departments, maintaining an office at one of the large ports and having representatives abroad.

The present number of manufacturers' export agencies is large and it is growing; manufacturers are experiencing an ever-increasing need for their own representatives to keep their names and products constantly before the eyes of foreign buyers. The function of such agencies has been assumed in many instances by export commission houses. It is obvious that by doing so export commission houses enter into direct conflict with their primary work which is not to push the goods of a particular manufacturer but to act as buyers for foreign importers. As such, they examine samples, compare quotations and bids; they should not be influenced in placing orders by agreements with those manufacturers who pay them a commission on sales, but by considerations of what is most desirable for their foreign buyers. Some export commission houses have succeeded in keeping the two functions distinct, performing valuable services both for domestic manufacturers and for overseas importers. Needless to say, the remuneration of the export commission houses must be paid by those parties in whose behalf they act in each case.

Disadvantages of Selling through Export Agents.—The disadvantages of placing one's export sales in the hands of an export selling agent are due mainly to the fact that he represents an independent organization; he is not an employee of the manufacturer whose sole interest is the development of the latter's business. A combination agent usually works on a time contract; he seeks immediate results irrespective of whether the sales make or do not make a solid foundation for the growth of the manufacturer's export trade. Such an attitude of exporters' agents is to some degree justified by the loss of accounts which many of them sustain after they have done some valuable, initiatory work, the manufacturer then deciding that he wants to assume direct control of his foreign trade.

An export agent, handling as he does many lines of goods, can not concentrate all his efforts on pushing the wares of any particular manufacturer; his interests are necessarily divided. At the same time it is his own advantage that he has constantly in mind. While it is true that the agent's success is dependent upon the success of his clients and that the two are inextricably interwoven, it is also true that the agent strives to maintain a firm grip on the business which he develops, so as to be able, when the occasion arises, to transfer it from one manufacturer to another. A secure position in foreign markets can seldom be obtained by entrusting one's affairs to independent organizations. This does not imply that many progressive export agencies have not been performing useful functions and have not been instrumental in the establishment of good will for the wares of many American concerns abroad. However, it does mean that in the very nature of things, the relation between a manufacturer and an export selling agent is such as to make one suspicious of the other, and that unless these suspicions are completely allayed by high-mindedness and fair dealing on both sides, the results are far less satisfactory than those obtained when one's own salaried employee looks after the selling end of the business. The latter method is

usually more costly both from the standpoint of expense attached to it and from that of the initial blunders which are likely to be committed when business is new, but eventually it pays.

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CHAPTER XVIII

CHANNELS OF DISTRIBUTION IN FOREIGN COUNTRIES

Direct Sales to Customers.—Some methods of distribution which are used with a fair degree of success in domestic trade are not well adapted to the sale of goods in foreign markets. One of these methods is that of direct sales from producer to consumer, orders being solicited either by means of catalogues or through canvassers and salesmen visiting offices and individual households. It is obvious that such form of merchandising, whatever its advantages and disadvantages may be in domestic business, is of doubtful value when buyers are separated from sellers by thousands of miles, by barriers of customs tariffs, by differences of language, currency, and ethical and legal concepts. Attempts at establishing direct connections with overseas consumers were made in the past but, as a rule, they were unsuccessful. An exception may be found in the sale of goods to foreign railway and steamship companies, municipalities, plantation owners, manufacturing and mining enterprises. These users of imported goods, who usually buy large quantities at a time, have either available funds to make cash payments or command good credit. Such consumers often prefer dealing directly with foreign producers; it enables them to get into closer touch with exporters and to effect savings on intermediaries' profits. Purchases are sometimes made by them through the invitation of public bids or through the dispatch of purchasing commissions to exporting countries. The latter method was used extensively by the governments of the allied nations during the recent War.

Mail order business is carried on quite extensively among

the countries of Western Europe; French, British and German houses often sell goods to foreign customers on a cash-on-delivery basis, a certain percentage of the price usually accompanying the order.

American mail order houses are doing some business in various parts of the world; their total sales, however, are small, and most of their foreign connections are not with overseas customers but with buyers residing in the neighboring countries.

Some manufacturers have found it advantageous to maintain retail stores in the more important cities of Western Europe and South America. The most conspicuous of these are manufacturers of shoes and sewing machines. This method involves large expenses for equipment and maintenance of stock, insurance, depreciation, salaries to sales people; it should not be attempted except after a careful investigation of its merits and drawbacks in each specific case.

Sales to Retailers.—Another method of distribution, the adoption of which in foreign trade presents much greater difficulties than in domestic business, is placing the manufacturer in direct touch with the retailer. The markets of an adjacent foreign country may be so reached, because the proximity of such markets makes it possible for the manufacturer to deal with them somewhat as domestic markets are dealt with. Large department and specialty stores, wherever located, may also be reached directly, as most of these stores have their own resident and traveling buyers abroad. However, the maintenance of direct relations with the rank and file of overseas storekeepers is not possible for the majority of exporting manufacturers and merchants. As a rule, only those who have highly developed foreign sales organizations with branches established abroad can carry on their foreign business without resorting to the services of other middlemen besides the retailers in foreign lands.

Goods most suitable to retail distribution in foreign

countries are: (1) those which do not require any reconditioning or other manipulation after they have reached the consignees; (2) articles possessing comparatively small intrinsic value, but yielding large profits to sellers. Large returns on sales permit the taking of greater risks and the incurring of the additional expenses which are entailed in the establishment of relations with many retailers instead of confining one's business to a few importers and wholesalers. Before the War, many German manufacturers used extensively the method of canvassing the retail trade of South America and the Near East. They were able to carry on their business in this way because of the large number of traveling salesmen whom they employed, salesmen familiar with the language, habits and customs of the people. Although an expensive and hazardous method, it possessed the advantage of having opened to German manufacturers many outlets for their goods which otherwise they would not have had.

Sales to Wholesalers.—Inter-European trade is handled, to a large degree, through wholesalers and jobbers. The main reason for this may be found in the close geographic proximity of one European nation to another. Foreign business on the European continent resembles our interstate commerce if one considers it from the standpoint of dispatch with which letters may be exchanged, samples supplied and personal contact established between buyers and sellers. Accustomed to handling both domestic and foreign business, many European wholesalers, when it comes to overseas trade, object to dealing through intermediaries—importers or exporters; they seek the establishment of direct relations with overseas manufacturers. Whether such relations are desirable for the manufacturer can not be decided *a priori*. Before quoting prices to and accepting orders from wholesalers and jobbers, a manufacturer must be certain that his sales to them will be sufficiently large to compensate him for the loss of business to general importers whose ill will he is most likely to incur.

Overseas Importers.—The primary function of overseas importers is to act as intermediaries between foreign shippers and native wholesale distributors; they usually buy on their own account from the exporting manufacturers and merchants, reselling the goods to wholesalers. In those markets where the wholesale dealers have learned the advantages of direct connections with foreign sources of supply, the importers have lost their strategic position; they have become competitors of wholesalers in distributing goods to retailers and to small jobbers in inland towns. Generally speaking, manufacturers exporting directly find it preferable to deal with large importers, their own selling organizations not being sufficiently developed to permit their entering into direct relations with ordinary wholesalers. On the other hand, many exporting merchants prefer selling to wholesalers; by so doing they eliminate one of the links in the chain of distribution and are able to obtain a somewhat higher price. The exporters' knowledge of local conditions in foreign markets permits them to deal advantageously with wholesale distributors, little risk being involved for them in the transaction.

General importers are especially prominent in industrially backward countries like China, Turkey, and West Africa. There the wholesalers are not equipped to do a direct importing trade, and satisfactory financial arrangements can usually be made only with large, reliable importing firms established at seaports and doing an international business. When a market develops, specialization takes place and importers appear who handle only certain classes of merchandise, such as textiles, chemicals, machinery.

One of the comparatively recent phenomena which must be taken into consideration is the rise of native importers in such countries as Japan, India, China, and the Levant; though they are comparatively new in the field and lack the foreign connections and the financial strengtl of large importing houses, their business is worth cultivating. Many native importers, particularly in Japan, China and India,

are men of ability and integrity; they possess the advantage over importing firms managed by foreigners of more intimate relations with local buyers and of a more thorough knowledge of local requirements, customs and prejudices.

Compradors.—An intermediary peculiar to trade conditions in China is the comprador. He is a salesman, an interpretary and a *del credere* agent, guaranteeing the payment of accounts by the native dealer, all in one. The disadvantages of a comprador system are: 1. Compradors often exact extortionate commissions, which those who seek Chinese markets must pay, as they can not dispense with the service of compradors, who alone deal with the native distributors. 2. The hold of the manufacturers on the market is very slight, as it depends largely on the good will of the comprador.

Compradors are gradually losing their position of supremacy, and an ever-increasing number of manufacturers' representatives are going to China, equipped with knowledge of the Chinese language and ready to sell goods over the heads of compradors.

Agencies.—The selection of an agency is a problem requiring careful consideration on the part of the manufacturer. The connections of the agent should be rigidly examined and the character of the agreement with him carefully considered before the exporter entrusts his business to the agent. One of the dangers to be guarded against is that of entering into an agreement with a foreign agent who may use his power in order to paralyze the American exporter's business while at the same time promoting the sale of similar lines of foreign goods. There are a number of cases on record where foreign agencies undertook to represent American manufacturers for the sole purpose of preventing them from gaining a foothold in the market, the agencies being interested in pushing the goods of foreign competitors. The best way of meeting the situation is to have American interests represented by American agencies abroad, but in a great many importing centers such agencies

are not to be found. The next best alternative is a native agency, which, as a rule, has no bias against American wares. But the difficulty here, besides the non-existence of such agencies in a number of markets, is that where they do exist, they are often financially weak, poorly organized and lacking in well-established connections with the ultimate distributors of goods. This drawback, however, is being gradually overcome, an ever-increasing number of native agencies becoming more and more capable of competing successfully with agencies controlled by foreign brains and capital. It is obvious that unless one can be certain of the whole-hearted support of the agency, its use as a sales-promoting device is of more than doubtful value. In the past American exporters were handicapped by the lack of such support in a number of places, and the problem, while not as acute as it has been represented is undoubtedly one meriting serious attention.

The oldest and largest houses are not always the best agencies for a firm that wishes to penetrate into a new territory; its initial business may not be sufficiently large to enlist their hearty cooperation or they may have friendly, long-established connections with manufacturers of competing lines which would rob them of the enthusiasm necessary to promote sales, particularly sales of goods new to the market. Smaller concerns controlled by energetic, reliable men may often prove more advantageous in such cases. However, the fact should not be overlooked that in order to be of the greatest benefit to the manufacturer, an agency must have reputable standing in the community where it functions; it must also be provided with facilities for properly displaying the manufacturer's goods.

In making a choice between establishing one's own branch or entrusting the business to an agency, the advantages and disadvantages of each method should be carefully weighed by the exporting concern; the question can not be settled *a priori*. An agency possesses the immediate advantage of being controlled by a man familiar with local customs

and business methods; it has also, as a rule, an established clientele which it has taken time, money and effort to build up. On the other hand, it is out of the direct control of the manufacturer and can not be used by him in order to serve his interests in the same way as a branch placed in charge of a salaried employee of the firm.

Agencies or branches are of particular value in promoting sales of such goods as require demonstration and the giving of service after the article has passed into the hands of the user. Automobiles, factory and farm machinery and equipment, etc., fall into this group. When machinery is sold, skilled engineering representatives, capable of setting up the machines and of repairing them in case of need, are an absolute necessity.

Agreements with Agents.—When an agent is appointed an agreement should be made setting forth clearly the intentions of the contracting parties. Besides defining the powers, duties and responsibilities of both the agent and the principal, the contract should specify the terms on which the agent is empowered to do business; the territory in which he is to operate; the rate of commission which he is to receive, also when and how the commission is to be paid; and the duration of the agreement.

Assignment of territory is a matter of serious concern. Some American firms, which in their domestic relations understand that an agent's district should be limited by his capacity of fully developing it, seem to lose all sense of proportion when it comes to assigning foreign territory. Many mistakes may be traced to ignorance of geography; others to pure carelessness. Mr. O. B. Hough (Practical Exporting, Chap. IX) mentions cases where manufacturers have been forced to refer inquiries from Iquitos, Peru, to an agent in Lima, because an agency contract has been made to cover Peru as a whole. The objection to such an agreement is that the agent in Lima can not well reach Iquitos without a sea voyage of several weeks' duration around the larger part of the South American continent, impassable mountain

chains separating these two Peruvian cities. Manufacturers have been known to grant agencies for the whole of Brazil, Argentina, China or India without stopping to consider the utter impossibility of an agent's covering, with any degree of success, if at all, the vast territory over which he is given the power to exercise his control.

"Del Credere" Agents.—As a rule, an agent is not responsible for goods sold by him if his customers refuse to pay or become insolvent before the goods have been paid for. Agents, however, sometimes propose to guarantee payments of those from whom they secure orders; they are then known as "*del credere*" agents. In consideration of the liability which they take upon themselves they receive a higher rate of commission than the ordinary agents. Such arrangements are rather the exception than the rule, most agents refusing to assume personal responsibility for the payment of accounts.

Merchant-agents.—The term agency is often loosely applied to a relationship between a manufacturer and a foreign buyer when a contract is concluded between the two by means of which the manufacturer agrees not to sell to any one else in the buyer's territory. Under such an arrangement the so-called agent acquires the sole right to handle the manufacturer's goods, but he purchases these goods outright, on his own account, for the purpose of reselling them at a profit, and legally the manufacturer is not his principal any more than he is the principal of the manufacturer. Such agents, in order to distinguish them from true agents, are often called merchant-agents. Some of them are large importing firms who carry substantial stocks and who push sales through extensive advertising, traveling salesmanship, branches and other methods. The advantages of doing business through any exclusive merchant-agent are: (1) the assumption by the agent of the financial and merchandising risks of the undertaking; (2) the entrusting of one's business to a man who has established selling connections, and who is familiar with local

conditions. The main disadvantage is the lack of control over the market, the merchant-agent looking mainly after his own interests and pushing the sales of an individual manufacturer only in so far as it is beneficial to him.

Branches.—Branches should be established in foreign countries only in those places where the volume of sales is large or where the character of the market and the nature of the product warrant the belief that a large volume of business may be secured. The maintenance of a foreign branch involves a more or less large expense, and such branches should be opened only after due consideration has been given to the difficulties involved in their operation. Branches are an admirable method of freeing oneself from the control of foreign intermediaries, for reaching directly foreign retailers and consumers; but they are certain to provoke, in most instances, animosity on the part of the existing channels for importing and distributing foreign goods.

The establishment of branches by exporters is usually considered by the existing local concerns as an intrusion into their sphere of action; they view such branches with suspicion and are ready to fight them unless their suspicions are disarmed by tactful conduct of the manager of the branch and his assistants. A struggle is sure to result if a branch house undertakes the carrying of goods which heretofore have been handled by the importers or wholesalers of the place. The carrying of stocks permits the branch to solicit retailers' trade, thus placing it in direct competition with local concerns. Prices for goods carried in stock must be somewhat higher than for those for which the branch merely solicits orders through samples, the goods to be shipped from the factory. The carrying of stocks requires warehousing and display rooms, an additional personnel, the immobilization of a certain amount of capital represented by the goods, and many other items of expense. On the other hand, a somewhat higher price for stock goods may be easily charged, as a person buying from stock has the advantage of examining the goods before purchasing them and of

not having to wait for delivery, the taking of immediate possession of the goods being made possible.

"Combination" Branch Offices.—A number of manufacturers may combine for the purpose of maintaining joint branch offices in foreign countries. The main advantage of such combination branches lies in the saving of expenses which they afford; from this standpoint joint branches are highly desirable. However, there are practical difficulties which stand in the way of their successful operation; one of these is the selection of the right man to be placed at the head of the branch office. He should be a man capable of representing with an equal degree of success the interests of each of the participating manufacturers. Friction between manufacturers often develops because some members of the joint branch suspect that their interests are neglected. Such suspicion may or may not be justified; it is often the case that some lines of goods sell more readily than others, irrespective of the selling organization's efforts. The apportionment of expenses also gives rise to disagreements as to its basis and application. However, this can usually be satisfactorily arranged.

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CHAPTER XIX

EXPORT SALESMEN

The employment of traveling salesmen is one of the most effective but also one of the most expensive methods of promoting sales in distant markets. A salesman should not be sent into foreign territory which has not been carefully investigated as to its active and potential demand for the goods to be offered by the salesman. While some commercial travelers can accomplish more than others, there is a limit to the ability of even the best of them. Opportunities for selling certain products in some markets may be so small as not to warrant the cost of cultivating them through salesmen. A good export manager should be able to foresee this with a fair degree of accuracy.

Qualifications.—In selecting men for foreign salesmanship one should be mindful of the fact that, in most instances, it is the traveling salesman alone who comes into personal contact with foreign buyers. The salesman's personal appearance, manners, and business methods have a great deal to do with making or marring the reputation of the firm which he represents. To eradicate the harm done by a tactless, inefficient salesman may often take long and persistent effort.

Foreign commercial travelers should not only possess all those characteristics which make for good domestic salesmanship but they should be endowed with even greater powers of adaptability and resistance; conditions abroad are often so different from those which surround one at home, and it is so much easier to succumb to temptations, when one is away from the restraining influence of domestic

environment. A salesman should be a man of pleasing but forceful personality, a man who by his straightforwardness, and his ability to see the buyer's point of view can win confidence and command respect. He must be enthusiastic; he must believe in the goods which he sells, and in the firm which he represents; and this belief must be so strong that people who come in contact with him feel it and are influenced by it. However, as his mission is to sell goods, and as the persons with whom he deals are business men who in their intercourse with him do not seek inspiration but opportunities for buying resalable commodities, his enthusiasm must be based upon knowledge—knowledge of commodities, their quality and serviceability, their difference from and superiority to other similar goods which are on the market. A firm sending out salesmen who are not thoroughly acquainted with the products which they are expected to sell is courting failure; only extreme courtesy can call a man a salesman if he undertakes the work of selling without being equipped with such knowledge.

Knowledge of manufactured commodities can best be acquired by spending some time in a factory watching the transformation of raw materials into a finished product. There the salesman soon learns all that is necessary in order to be able to talk to prospective buyers intelligently and convincingly about the nature of the goods, their workmanship, their fitness for the purpose in view. It is in the factory that the salesman learns about the plant's capacity for filling orders, about the possibilities, or the lack of them, for making changes to meet local demands, about the cost of production, etc.

In addition to knowing the goods the salesman should know the house for which he works, its ability to grant credits and its attitude toward credit granting, its financial strength, its willingness to give service, its power for expansion.

While a commercial traveler should know the language of the country which he visits, such knowledge is not a

guarantee of commercial success. Far better is a salesman who speaks a foreign language imperfectly, but who is otherwise well qualified for the post than is a man able to converse fluently in a foreign tongue but lacking other essentials.

In many countries, social and business intercourse are more closely related than they are in the United States; this is particularly the case in Latin America and in South Africa. A traveling salesman who is devoid of social amenities, who can not wear a frockcoat and evening clothes with dignity, and who can not be pleasingly entertaining when the occasion demands it, is out of place in such cities as Rio de Janeiro, Buenos Aires or Capstadt. Business men in Latin America and South Africa form their opinions of traveling men not only in their offices, but in clubs and restaurants, at dinner parties, and at other social functions; they are more willing to discuss business matters with those men who by their polite and easy manners and their conversational ability produce upon them a favorable impression.

A salesman should know the countries which he intends to visit, and the greater this knowledge the more likely he is to succeed. Knowledge of geography, of history, of literature, of customs and beliefs, of transportation and banking facilities, of tariff and other regulations, all help toward an intelligent planning of the trip. Such knowledge makes the commercial traveler more sure of his ground, it gives him an insight into the best ways of approaching prospective clients, it prevents him from committing blunders, which are often costly.

It is well to prepare an itinerary before leaving home, but such an itinerary should be flexible, as various contingencies may arise which make it necessary to stay in a place longer than originally intended; routes and sailing charts may have to be changed.

Successful traveling salesmen are genuinely interested not only in the house which they represent but also in their customers; they do not use the power of persuasion in order

to unload goods which they know the buyers will not be able to resell; they realize that it is not the immediate sale that counts, but the building up of a satisfied clientele. A salesman's success depends upon the welfare of those with whom he deals, and a good commercial traveler seeks to further the welfare of his clients by all the means at his disposal. In order to be of service to his patrons, he must be acquainted with their business and with local economic conditions; such knowledge permits him to offer valuable suggestions as to what the buyer should purchase and in what quantities, what efforts he should make in order to increase his turnover and to move seemingly dead stock. Thus, good will is created, and customers once acquired are kept. Incidentally, the knowledge of the buyer's business allows the salesman to guard his own firm against incurring unnecessary risks.

Foreign salesmen should be in possession of reliable credit information regarding their prospective clients and their regular customers; they should be good judges of credit risks. Close cooperation between salesmen and the credit man of the house is highly desirable in domestic business; such cooperation is indispensable in foreign trade, where the burden of concluding transactions falls largely upon salesmen; foreign buyers usually take it for granted that their acceptance of a salesman's offer constitutes a binding contract on both parties, upon exporters to ship the goods as well as upon buyers to receive the commodities and to pay the purchase price. The placing of such an interpretation upon orders given as a result of solicitations by traveling salesmen is justifiable in the case of overseas buyers, as their interests are often most vitally jeopardized by the refusal of the exporter's credit department to pass favorably upon the transaction. Conditions differ materially from those prevailing in the domestic market. At home, decisions reach buyers quickly and they can either modify terms of purchase or order goods from other firms; in foreign trade it necessarily takes much more time

for purchasers to learn of the refusal to ship the goods, information coming to them, in many instances, when it may be too late to apply any remedies.

Preparing the Field for the Salesman.—It is not advisable to dispatch a commercial traveler into a territory where he, his firm, and his goods are entirely unknown. It takes time and effort to overcome indifference and suspicion, which are the usual attitude toward strangers. A salesman can accomplish much better results in a given period of time if the ground is prepared for him from the home office through correspondence, advertising or any other device designed to acquaint prospective buyers with the firm and its products. The home office should also send out notices telling of the intended visit of the salesman. This creates interest in his coming, a desire to see what he has to offer; sometimes it may lead to the postponement of an order, which otherwise might have been given to a competing concern. A personal letter is the most satisfactory way of announcing the salesman's forthcoming visit to large importers; such letters should not be sent too far in advance.

Keeping in Touch with the Salesman.—A traveling salesman should receive frequent letters from the home office, not in order to hamper his movements by continually telling him where he should go and what he should do, but for the purpose of keeping up his "morale." An encouraging letter from a sales manager may often restore the confidence of a salesman who has met with disappointing experiences, may fill him with new courage and determination, which are so necessary for the overcoming of difficulties. The sales manager's letters should be friendly in tone. Mistakes on the part of a salesman are possible, but even if mistakes are committed, harsh criticism is not the way of dealing with the situation; such criticism is usually disastrous; it makes a salesman resentful, dampens his enthusiasm, and thus unfits him for the work. Friendly cooperation between the various men in the organization, whatever their position, is the keynote of business success;

this truth must be constantly kept in mind by the sales manager in his relations with the men under him. Keeping in touch with salesmen means also timely apprisals of any changes which may occur in the policy of the house with regard to new or discontinued lines, prices, credit granting or any other matter bearing upon the sale of goods.

THE EXPORT SALESMAN'S EQUIPMENT

Passport.—Among the documents with which a commercial traveler should provide himself, the passport is at present an absolute necessity. Before the War this official instrument of identification was highly desirable and there were a few countries into which admission could not be gained unless a viséed passport was presented at the frontier. The exception has now become the rule, and no traveler should depart from the United States unless he has a valid passport. Passports must be viséed by the consuls of the countries to be visited.

Before a sailing permit is issued by the custom house at the point of embarkation, satisfactory proof must be presented that the income tax has been paid and that all other requirements of the revenue act have been complied with.

Passport and visé regulations became general and strictly enforceable during the War, when every nation had to scrutinize closely all aliens crossing its borders. Many of these regulations are yet in existence, adding to the expense and annoyances of traveling in foreign countries. The United States no longer requires its citizens to secure passports on leaving or entering the country, but every American going abroad must have a passport, as the majority of foreign countries do not admit persons who are not provided with this document.

The charge for viséing American passports varies; the sum required by most nations is $10. This tax has been adopted largely as a retaliation for the visé fees which aliens embarking for the United States must pay and which are fixed at this amount. The charge of $10 required of

Americans is often much larger than the fee paid by nationals of other countries.

The Merchants' Association of New York has been very active in its campaign for a reduction of visé fees. The contention is that American business men who travel in foreign countries are burdened, because of visé charges, with higher expenses than their competitors visiting the same countries.

A memorandum of samples of commercial value is highly desirable, as its possession expedites the clearance of such samples through the custom house. In some countries, Brazil being one of them, valuable samples must be entered at the custom house by means of consular invoices; unless such invoices are carried by the traveling salesman he may be subjected to great annoyances if not to more serious difficulties.

Catalogues and price lists should be a part of the salesman's equipment and they should be kept up to date. A clear understanding must exist between the house and its traveling representatives as to the exact meaning of the firm's export quotations. Prices given to representatives should be sufficiently stable to permit salesmen to assure their customers that these prices will stand during the time necessary for the transmission of orders to the home office and their acknowledgment, the latter usually being done by cable.

Credentials.—The commercial traveler should carry with him papers showing his relationship to the firm which he represents and vesting him with a certain amount of authority to transact business. The granting of a full power of attorney to a salesman is not necessary under ordinary circumstances, but the possession of such a document is required in many countries if a salesman is expected to perform such functions as the collection of accounts, the adjustment of disputes, etc.

Letters of Introduction may prove quite useful in many instances, especially letters written by those whose names

carry weight in the territories to be visited by the salesmen. Such letters may be addressed to prominent business men, bankers, governmental officials, to merchants' associations and similar bodies, to publishers of trade papers, to managers of branch offices of the mercantile agency to which the salesman's firm subscribes, to American consuls and commercial attachés, to American chambers of commerce abroad. Letters of introduction often help in the establishment of relations facilitating the traveler's work.

The Traveler's Letter of Credit is the most satisfactory means of carrying funds to meet traveling expenses. The initial letter of credit need not be issued for the total sum which the salesman is likely to spend during his entire trip, as arrangements can be made with banks providing for renewals of credit when the occasion may demand them. However, the best policy is to give the salesman a letter of credit sufficiently large to make it possible for him to transact his business without asking for additional remittances. A traveling salesman who can not be trusted with funds to cover his expenses while on the road is not a desirable representative and should not be employed. Few things affect the firm's standing abroad more unfavorably than the financial embarrassments of its representatives, and the same may be said of the effect of such embarrassments upon the representative's ability to do effective work.

Besides letters of credit, the commercial traveler may use travelers' checks issued by express companies, by some of the larger banks, and by the American Bankers' Association. Such checks are readily accepted in most parts of the world, though it is well to remember that in the interior of many countries, especially in those places where banking is not well developed, travelers' checks are looked upon with suspicion and native currency or gold is demanded in the payment of all bills.

COMBINATION TRAVELING SALESMAN

The use of combination traveling salesmen gives manufacturers an opportunity for maintaining personal representatives in foreign fields without subjecting themselves to the heavy expenses which the sending out of individual salesmen usually involves. However, the saving on expenses should never be the main consideration of a manufacturer who wishes to reach desirable foreign buyers and to establish profitable connections abroad. The qualifications of the combination salesman should be carefully weighed before any business is entrusted to him. Is he endowed with good judgment? Has he a pleasing yet forceful personality? Is he acquainted with the goods which he proposes to sell and with the territory which he intends to visit? Does he know the language of the country to be visited by him? Does his combination include divergent or allied lines? These are some of the questions which present themselves and which should be answered before a choice of a combination salesman is made.

The advantages of a combination salesman, in addition to the economy of the plan, lie in the opportunities which he offers to manufacturers of "short lines" to bring their wares to the attention of prospective foreign buyers. A buyer who would refuse to look at a single line, may be attracted to it when it is displayed in conjunction with a number of other products carried by the combination salesman. An order may be thus secured which otherwise would not have come to the manufacturer.

The sharing in expenses may also permit the selection of a better man. A house which could not afford to spend more than $3000 on its own salesman in Argentina or India may, by joining a combination of five, and by spending only its prorated share of $2000, procure the services of a $10,000 man.

One of the drawbacks of employing a combination salesman is that his efforts are necessarily weakened; he can not

concentrate his time and energy on pushing the wares of one manufacturer to the exclusion of the wares of other manufacturers. There is also the danger of his neglecting those goods which it takes more effort to sell. In addition to the salary, a combination salesman usually receives a commission, and he is naturally interested in pushing those lines which are likely to bring him the largest returns.

Taxes on Commercial Travelers.—Many countries levy special taxes on persons engaged in business. This is one of the main reasons why foreign traveling salesmen are subjected to taxation; if they were not, their position would be that of preference as compared with representatives of domestic concerns. In some countries taxes or license fees are imposed not only by national authorities but also by provinces and municipalities; this increases considerably the cost of doing business through traveling salesmen. The payment of national or state taxes may usually be avoided by establishing connections with a local importing house under whose auspices the salesman may be assigned to work; in such cases, orders are booked and delivered through the importer who acts as the agent of the company in whose behalf the salesman is traveling.

Commercial Samples.—Samples without value are, as a rule, admitted free of duty; valuable samples may be entered either by arranging a bond to cover the amount of duties or by paying the duty subject to refund should the samples be reexported within a certain time limit. In some countries duties must be paid in cash when samples are cleared through the custom house and no refund whatever is allowed upon reexportation. The best way to deal with such a case is to dispose of the samples for whatever they will bring before leaving the country and to have a new assortment sent to the next place to be visited. Such a procedure is sometimes adopted by commercial travelers even when refunds are allowed, the obtaining of refunds usually involving delay and annoyance. Moreover, samples subject to refund are usually more or less mutilated by

having rubber stamps impressed on them, holes punched through them, etc. This is done in order to prevent the sale of samples and to permit their identification. If the same sample is used in a number of countries the various identification signs which are made upon it or are attached to it, impair its serviceability. On account of this it has often been found more desirable to pay the duty in each country and not to bother about the refunds.

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CHAPTER XX

EXPORT ADVERTISING

Export advertising may be divided into dealer advertising and general publicity or consumer advertising.

Dealer Advertising. Export Journals.—The purpose of dealer advertising is either the securing of agents and distributors abroad or the stimulation of inquiries and the obtaining of orders from foreign importers.

One of the best media for such advertising is the export trade journal. Export journals have achieved the highest degree of development in the United States, some of them having editions published in four languages: English, Spanish, French and Portuguese. They circulate in all the principal markets of the world.

The aim of export journals is not the obtaining of wide circulation among general readers. They endeavor to reach importers, wholesalers and large consumers of foreign wares, such as railroad and mining enterprises, public utility corporations, and municipalities. The paid circulation of the leading export journals may be easily ascertained, as it is certified by the American Audit Bureau of Circulations. But the advertisers should keep in mind that the number of subscribers which an export journal possesses is not the only indication of its value for advertising purposes. The paper is usually sent free of charge to those places where in the opinion of the publishers it is most likely to be of service to the sellers of American goods abroad. The advertising value of the journal is thus determined to some degree by the care with which its mailing list is selected and maintained. Other important considerations are the make-up of the

journal, its external appearance, and the prestige which it has in foreign countries because of the character of its advertisements and the nature of its editorials and general articles; these must be truthful and up to date, and must give foreign buyers accurate information regarding American economic conditions and the progress of American industrial arts.

The leading export journals maintain extensive service departments which are placed at the disposal of advertisers without any other charges than the rates for advertising space. The service department stands ready to furnish selected lists of foreign agents and buyers, giving their financial ratings. It translates correspondence called forth by advertising and advises exporters in general regarding the best methods for initiating and developing foreign trade.

Export Editions of Domestic Trade Papers and House Organs of Exporting Intermediaries.—In addition to export journals, two other media for dealer advertising which are brought most frequently to the attention of the exporting manufacturers are the export editions of domestic trade papers and the house organs of export commission merchants. Neither of these can be considered as satisfactory as are export journals.

Export editions are usually ambitious affairs, well edited and attractively put out. However, from an advertising standpoint they lack the effectiveness of a good export publication which appears regularly and at frequent intervals. The circulation of the export journal is built up gradually; it is the result of careful planning and persistent, judicious effort on the part of men familiar with foreign markets. The frequently recurring appearance of an export journal makes people look forward to its coming. Advertisements which it carries produce a cumulative effect upon those who read them and thus are more likely to compel action than the single appeal of an export edition of a domestic paper.

A house organ has for its main purpose the furtherance of the interests of the concern which issues it. It is read pri-

marily by the customers of the export firm. However, attempts are being made to give house organs a circulation outside of the firm's clientele. Generally speaking, advertising rates in such publications are not commensurate with the services which they render.

Advertising in a house organ has the drawback of creating an impression, often erroneous, that the advertised goods may be obtained only through the export firm which issues the paper.

The main advantages of house-organ advertising are that through such advertising the manufacturer acquires the good will of the export house and that it is one of the quickest ways of reaching the foreign clientele of the merchant.

Export Catalogues.—The preparation of an export catalogue requires a great deal of skill. While containing all items which may be of interest to foreign importers, the catalogue should not be overloaded with detailed descriptions of every product made by the manufacturer. Not only does this make the catalogue too large for foreign circulation, but it is also confusing to importers. The inclusion of many items which are of no value to foreign buyers distracts their attention from those articles which the exporter wishes them particularly to consider. Concentration on a few lines does not imply that the export catalogue should fail to give buyers abroad an idea of the size and range of the manufacturer's plant and output. Nothing of an informational character should be omitted if it would influence the prospective client to place an order.

An export catalogue should be provided with an attractive and substantial cover, it should be printed on good paper, and it should be, from every other standpoint, whether type, layout or illustrations, a credit to the firm. Attempts to save on postage or on customs duties should not lead a concern to issue a catalogue of cheap appearance, as this may lead the foreigner to suppose that the establishment is financially weak, that its products are not quality goods, and that its service is poor.

Some exporters publish two editions of their foreign catalogues, one intended for general circulation, and a more elaborate one which they send out only in response to presumably worth-while inquiries and distribute among their regular customers.

The use of a domestic catalogue with insertions in a foreign language, while it saves the expense of preparing and printing an export catalogue, can not be recommended. It is a makeshift and possesses all the disadvantages of such. A concern that does not consider the cultivation of foreign trade of sufficient importance to warrant the issuance of a catalogue especially adapted for the purpose, might just as well stay out of foreign business; its chances for success are very doubtful.

Care should be exercised in the distribution of export catalogues; their promiscuous forwarding to foreign addresses is not only costly, but is often likely to do more harm than good. This is particularly true of catalogues containing price quotations; prices intended for large importers should not be given to retailers or consumers. Efficient export departments have up-to-date mailing lists which should be scrutinized before catalogues are dispatched abroad.

Dealer's Aids.—For the purpose of enlisting the good will of foreign retail merchants, many American manufacturers have found it advisable to offer to these merchants a considerable amount of store advertising, using for that purpose color prints for window decoration, calendars, etc.

Consumer Advertising.—Foreign consumer advertising presents great possibilities. American exporters, in particular, should be able to use successfully this sales promoting device, as in no country has the art of advertising been developed to such a degree of perfection as in the United States. American manufactures and distributors, who have achieved such a marked success in domestic advertising and whose methods have been so often copied by other nations, should have little difficulty in creating, by means of

judicious foreign advertising, a demand for American wares in many markets of the world.

Proper advertising may awaken desires and cause new wants in Japan or in Chile, just as it may do so in Nebraska or in Oregon. It is obvious that the appeal which is used must differ according to the outlook on life, the customs and habits of a people; but if a commodity is adapted to the geographic conditions of a place, if it does not run counter to the traditions of the people, if it possesses merits, and if its price is not beyond the purchasing power of the prospective buyers, then an educational advertisting campaign, if properly conceived and executed, is certain to bring results.

Americans must realize that in many parts of the world advertising is in its infancy. Methods which are well adapted to the intelligence, the sense of appreciation, the tastes of the people in the United States may be entirely inappropriate when one desires to reach the population of another country. Just as commodities may be too artistic, too delicate, for certain markets, so also advertising may be too subtle, too refined. As a rule, people are not attracted to things which are beyond their comprehension. Some of our advertising and selling efforts have been wasted in the past, because of our having overlooked this simple truth.

An important item to remember is that the proportion of illiterates is much greater in many countries than it is in the United States. Different advertising devices must be resorted to in order to attract the attention of, and to produce an impression upon, those who are not able to read.

The following are some of the fundamentals of successful advertising:

1. Whatever the method of visualization, whatever the language in which the advertising copy is couched, it must ring true.

2. The truth must be expressed in such a way as to be easily understood. The advertisement must harmonize with the spirit of the people among whom it circulates; verbatim translations are usually doomed to failure.

3. Advertising copy must be adapted to the character of the commodity; a piano should be advertised differently from a cash register or a breakfast food. The wording and the make-up of the copy, and the selection of advertising media must be the result of careful study, of thorough knowledge of conditions acquired through reliable channels.

An interesting case of adaptability to geographic conditions is cited by Mr. J. W. Sanger (Special Agent Series No. 209). In China, itinerant story-tellers are paid to weave into their tales of monstrous legends other tales concerning cigarettes and medicines. The largest foreign tobacco company uses twenty-five such story-tellers, who are stationed at boat landings and other congested places.

Before local foreign advertising is launched, it is necessary to have the goods in the hands of distributors. The purpose of general publicity is the arousing of demand on the part of final consumers; unless this demand can be satisfied when it is created, consumer advertisement is not likely to prove profitable. The initial disadvantage of not having the goods may be overcome by continuous persistent advertising, but the procedure shows an error in psychological perception and it represents an economic waste.

Goods can reach a domestic market from a factory in a comparatively short time, so that the problem of having them with the dealers when a domestic advertising campaign is launched is not as important as it is when a foreign publicity campaign is undertaken. It often takes months for merchandise to reach an overseas market; a considerable amount of ill will may be created when consumers seeking advertised goods are repeatedly confronted with the dealers' statements that the goods are not in stock.

Foreign Advertising Media.—One of the main advertising media in foreign countries, just as in our own country, is the periodical press: dailies, weeklies and monthlies. The general characteristics, the clientele, and the influence of foreign periodicals vary; some are better adapted for advertising expensive high-grade goods while others are

most suitable for advertising wares whose chief appeal lies in their low price.

Foreign dailies are used to great advantage by exporters of products of general consumption for which it is desirable to create a widespread city demand. In few countries is the daily press so prominent and so well organized as it is in the United States. However, markets worth cultivating possess more or less influential papers in which it pays to advertise. Fairly accurate information regarding the circulation of these papers may now be obtained from large advertising agencies. Foreign advertising rates are not as standardized as they are in this country, but the time has passed when advertisers were ignorant as to whether the rates demanded by foreign publishers were in accordance with the services they could render or in accordance with their unscrupulousness and their rapacity.

Outdoor Advertising.—Outdoor advertising is used both in industrially advanced and in backward countries. Its value in the first is largely a supplementary one; billboards, posters on walls, electric signs, as well as announcements in railway depots and in public conveyances are used in conjunction with publicity campaigns carried on in newspapers and magazines. In backward countries the circulation of periodical literature is very limited; outdoor advertising in these countries is a primary device, the only means of reaching many classes of people that can not be reached in any other way.

Advertising Agencies.—The complexity of problems confronting one in connection with export advertising makes it desirable to entrust one's advertising campaign abroad to organizations which specialize in this kind of work. Some large advertising agencies which have proved their value in the field of domestic advertising have established well-equipped foreign departments, and a number of agencies have arisen recently which are devoted exclusively to foreign advertising. Exporters must be careful in choosing an agency; the one selected should be headed by a man of

vision and understanding, familiar with foreign customs and merchandising methods and competent to advise the exporter's advertising manager as to the best plans for reaching different markets.

Foreign departments of leading advertising agencies, and the better agencies devoted to foreign work exclusively, have a corps of trained experts who are not mere translators but who know how to write advertising copy in the languages of the countries to which the messages are to be sent. They have designers who know how to illustrate this copy in a way that is attractive and convincing to foreign readers. They receive hundreds of foreign newspapers and other periodicals, through the examination of which they are able to learn of their characteristics and of their merits as advertising media. They have connections with foreign publishers and are prepared to furnish correct quotations for space in most of the foreign publications of any importance. They supervise the proper placing of advertisements, and they observe the publications as to their carrying out of contractual obligations.

Many advertising agencies soliciting foreign business are not provided with such organizations; they confine themselves to the maintenance of close relations with agencies in foreign countries, with which they are affiliated and to which they delegate the work of carrying on the advertising campaigns of their clients. The value of such agencies is determined to a large degree by the character of their foreign connections. Generally speaking, it does not seem as though they can under any circumstances be as efficient as those agencies which are fully equipped to do business from the home office.

When a trustworthy advertising agency has been selected, it should be thoroughly informed concerning the products, the manufacturing processes, the financial strength, the possibilities for expansion of the enterprise employing it. No agency can evolve a successful advertising plan for a business regarding which it is not in possession of all the necessary data.

Advertising through Local Foreign Representatives.—Manufacturers who have resident representatives abroad sometimes entrust their local advertising campaigns to these representatives, limiting them only as to the amount of money which they may spend. The representatives either attend to the matter themselves or entrust it to a local agency. Such a policy is not to be recommended because: (1) it leaves out the advantages which accrue from a personal supervision of all publicity work by the advertising manager of the concern; (2) it foregoes the benefits of the superior skill which Americans have attained in the art of advertising. A representative's knowledge of local conditions should be utilized; his suggestions and criticisms should be invited; but the advertising itself, in order to be most successful, should be carried on under the control of the exporting manufacturer's organization and with the assistance of some reliable advertising agency in the United States.

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The subject of Export Advertising has received a great deal of attention during the past few years and numerous articles dealing with this problem may be found in such periodicals as *Export Trade and Exporters' Review, Printers' Ink, The World's Markets* as well as in the *Proceedings of the Annual Foreign Trade Conventions.*

CHAPTER XXI

COMBINATIONS FOR EXPORT TRADE

Combinations in Foreign Countries.—The advantages resulting from combinations lie in the greater efficiency which may be developed and in the savings which may be effected through cooperative action in every line of economic endeavor, whether it be production, transportation or marketing of commodities. These advantages accruing from combinations were recognized many years before the Great War by the competitors of the United States in the world's markets. One of the most prominent factors in the development of German export trade were cartels or cooperative export associations. German cartels are of various kinds, some regulating conditions of sale and terms of payment; others fixing prices either directly or indirectly, by controlling production; still others providing one central selling organization. The selling cartel is the most highly developed type of cartel. It existed before the War in the German dye industry, which operated as a unit in foreign trade under the leadership of two great groups of allied producers working under a fifty-year agreement. Half of the coal and coke exported from Germany was sold by one central agency; two selling agencies, closely allied, handled the export of iron and steel; and a similar organization existed in the manufacture and sale of electrical equipment.

Cartels were established in Germany after the crisis in the middle seventies of the last century; their number rose from fourteen in 1879 to eighty-five in 1885, two hundred and ten in 1890, four hundred in 1902 and about six hundred in 1911.

The syndicates of France and Belgium are organizations similar to German cartels; like the latter, they are agreements between firms maintaining their independence but aiming to eliminate wasteful competition and to gain, through cooperation, a control over markets. Such syndicates are to be found in iron and steel, coal, glass, and a number of other industries of Belgium and France.

In Great Britain the great coal-export business is done largely by powerful organizations which combine the mining and marketing of coal with the operation of shipping lines and the maintenance of foreign distributing companies. A strong union of British manufacturers of cement handles their overseas trade in that product, and similar cooperative bodies exist among the manufacturers of machinery, pottery, chemicals, textiles, electrical appliances, soap, etc.

Organizations of one kind or another, uniting the interests of producers, both in their domestic and foreign commercial relations, are to be found also in most of the other European countries as well as in many South American republics and in Japan. It is estimated that before the outbreak of the War there were more than 2500 combinations in different countries outside of the United States. Since the War cooperative efforts as a means of facilitating sales abroad have become general among the leading nations of Europe, the governments recommending the extension and consolidation of the already existing organizations and encouraging the formation of new ones.

In Germany enterprises engaged in foreign trade were welded together into one organization under the name of the Association of German Export Firms. This organization, with headquarters in Berlin, includes manufacturing and shipping concerns. An insight into the workings of the Association may be gained by considering that upon its establishment it proceeded to make a thorough investigation of export markets for certain products, such as machinery and engineering supplies. The purpose of this study was to ascertain the amount of American and British

competition to be met. The Association classified the markets into two categories, those in which the competition was likely to be keen and those in which it was expected to be more or less negligible. The policy adopted was to standardize and simplify all machines, appliances and tools for the first class of markets, and to individualize the commodities so as to meet the specific requirements of the second class.

During the War the most important French chambers of commerce and associations of merchants, manufacturers and transportation companies banded themselves together into a National Association for Economic Expansion. This Association, which was formed in 1915, made a survey of the agriculture, industry and commerce of France and it has since perfected arrangements to supply French exporters with information regarding foreign customs duties, import and export regulations, freight rates, taxes and trade opportunities. Another trade-promoting body which was recently organized is the National Union for the Exportation of French Goods and the Importation of Raw Materials. It aims to foster combinations of small manufacturers and merchants.

The advantages of doing business in foreign countries through combinations are apparent when the execution of an important contract is to be undertaken. In China, representatives of German cartels obtained many contracts because they were able to undertake the work of opening mines, providing the necessary tools and machinery, tracks, locomotives and other essentials. Manufacturers acting singly were at a distinct disadvantage. The Chinese Companies intending to open mines, as a rule, preferred dealing with a single enterprise to placing a number of separate orders with private firms. In order to compete with German cartels there was organized in England in 1915 the Anglo-Chinese Engineers' Association.

The Webb-Pomerene Law.—Before the passage of the Webb-Pomerene Act, in April, 1918, American manufac-

turers producing identical goods were not allowed to combine, either for the purpose of carrying on export trade or for other purposes. The Webb-Pomerene Act relieves competing manufacturers who form export combinations from penalties to which they would have subjected themselves under the provisions of the Sherman and Clayton Anti-Trust Acts. The dominant idea of our legislation before the passage of the Webb-Pomerene Law was that all combinations were to be looked upon as a public menace, the charges against them being that they act in restraint of trade and use all the means at their disposal to stifle and destroy free competition. On account of anti-trust measures, American exporters were forced to meet, individually, the powerful combinations of Germany, Great Britain and other commercial nations. The realization of the fact that they were thus placed under a great handicap in their attempts to extend sales in foreign markets led to the enactment of the Webb-Pomerene Law. This law permits the making of arrangements or agreements and the formation of associations for the sole purpose of engaging in exporting business.

The associations formed under the law are forbidden to restrain trade within the United States, in any way, or to enter into any understanding or conspiracy which would artificially increase or depress prices of commodities of the class exported by them. They are also enjoined from resorting to unfair methods which would restrain the export trade of any competing manufacturer remaining outside of the association.

Control over the export associations has been vested in the Federal Trade Commission, with which every association must file upon its formation a written statement setting forth the location of its offices or places of business, and the names and addresses of all its officers and of all its stockholders or members. If the association chooses a corporate form of organization it must file a copy of its certificate or articles of incorporation and by-laws; if unincor-

porated, a copy of the contract entered into by the members of the undertaking must be submitted. Each association is expected to make a like statement on the first of January of each year, indicating any changes which may have occurred in the location or organization of the business and supplying such other information as to conduct, practices, management, and its relation to other associations, corporations, partnerships, and individuals as the commission may require. Failure to do so subjects the association to the loss of benefits conferred upon it by the Act and to a fine of $100 for each and every day of non-compliance with the law.

Whenever the Federal Trade Commission has reason to believe that unlawful acts in restraint of trade have been committed by an association it may summon the officers of the association and its agents to appear before it and it may conduct an investigation into the alleged violation of law. Should the conclusion be reached that the acts of the association were contrary to law, the commission may make recommendations for the readjustment of the association's business, so as to bring it in conformity with the requirements of the law. If the association fails to comply with the recommendations, the case is referred by the Federal Trade Commission to the Attorney General of the United States for such action thereon as he may deem proper.

Methods of Cooperation.—One of the best methods of cooperation between competing manufacturers making the same kind of products is the creation of an exporting company to be under the direction of one or a number of experienced export managers. The participating manufacturers furnish the working capital by subscribing to the stock of the selling organization, the amount subscribed being proportionate to the "productive capacity" of each manufacturer. By "productive capacity," used in this connection, is meant not the manufacturer's total output, but that part of it which he would be willing to guarantee to deliver during a given period to the export company upon its call. The subscribed funds are used for the operation of offices in the

principal ports of the United States, for keeping up traveling salesmen and branches abroad, and for any other trade-promotion work. Orders procured through the export company are as a rule allocated to the members of the combination on the basis of their "producing capacity."

A different form of cooperation is the establishment by each manufacturer entering the combine of a subsidiary for export business only, the subsidiaries then to form a trade association. Such an association possesses no central selling agency. The subsidiaries may have "gentlemen's agreements" as to prices, terms of sale, etc., but each subsidiary looks after its own interests in the foreign field. The agreement between them sometimes refers to an allocation of markets, each member obligating himself not to sell in another member's territory.

The possibility of forming export associations is of particular benefit to small concerns which when acting alone can not well defray the comparatively large expenditures which the investigation and the development of foreign markets usually involves. An export association places within the reach of competing concerns facilities which before the passage of the Webb-Pomerene Law were possessed only by large industrial and commercial enterprises equipped with strong export departments. By combining their selling activities, small concerns can employ trained investigators for the study of foreign markets, and capable salesmen for the introduction of their goods into foreign countries; they can maintain a common export office headed by a competent export manager, who may plan and conduct their selling campaign and advise them as to the preparation, packing, and routing of goods, the financing of shipments, the making of collections, etc.; they can have joint branch offices in foreign lands keeping them in touch with conditions abroad and looking after their interests there.

Advantages of Cooperation.—Savings in selling expenses have been reported to the Federal Trade Commission by

practically all export associations established since the passage of the Webb-Pomerene Law.

Along with economies in selling has gone increased efficiency in production and distribution. This may be partly accounted for by the elimination of waste. Manufacturers seem powerless to meet the problems which arise in connection with the multiplicity of styles, types and grades which they themselves create in their competitive efforts and which weigh heavily upon the costs of production and distribution. Through cooperative effort it is possible to introduce an intelligent system of standardization and simplification, which cuts down expenses of production without in any way affecting the quality of goods or their salability.

Some associations have adopted a common brand or trade mark, which they place on all goods shipped by members of the association. This procedure is gaining in favor, because of certain advertising advantages which it possesses; it is generally used in connection with a subsidiary trade mark indicating the particular plant from which the product comes.

Cooperative organization allows the distribution of orders to those factories which are best able to do the work, eliminating waste of labor and capacity. Under cooperation, greater specialization and adaptation of machinery and processes to the needs of foreign markets may be introduced in factories best suited for that purpose. Orders may be placed with the establishments which are most advantageously located from the standpoint of distance, thus reducing the cost of transportation and making deliveries more prompt.

A combination for export trade can establish and maintain warehouses in foreign countries, which may be used as redistributing centers for shipment of goods to their ultimate destination. For individual manufacturers the maintenance of warehouses is often impossible because of expenses which it involves. The maintenance of ware-

houses abroad permits taking advantage of cheaper ocean freight rates, rates varying considerably at different seasons of the year and for different routes; it also makes possible a more expeditious delivery of goods.

Export combinations are advocated because in many markets American manufacturers and producers have to meet highly effective combinations of foreign buyers. Such combinations confront the exporters of lumber in Australia and on the Continent of Europe, and the exporters of raw cotton in Australia. For years the copper trade of the world was dominated by a large German metal-buying organization which had subsidiary and affiliated companies in England, France, Spain, Switzerland, Belgium, Africa, and Australia. The silver trade has been controlled by a few London firms which daily fixed the price of silver for the world. The existence of such combinations places American competing exporters acting individually at a great disadvantage.

For non-competing manufacturers, cooperative selling organizations were permitted in the United States before the passage of the Webb-Pomerene Act. Such organizations were formed by certain groups of manufacturers that were successfully carrying on their export trade for many years previous to the promulgation of this law. The best groupings have been those formed by a comparatively small number of concerns more or less familiar with each other's policies and producing similar or allied goods. Many of these combinations were the work of promoters. Promoter's combinations may be beneficial if the promoter is a conscientious, capable man who considers not his immediate profit but the building up of a permanent business. Very often, however, the promoter's chief concern is the bringing together of as many lines as possible, irrespective of their relationship. The result is certain to be unsatisfactory. In such a case, the promoter's main consideration is the obtaining of contributions toward expenses and not his ability to sell goods.

Arguments against the Webb-Pomerene Act.—There are two main groups of opponents of the Webb-Pomerene Act. The first are those who oppose it because it represents to them a covert attack on the principles underlying our anti-trust legislation, a first step toward the total repeal of the Sherman and Clayton Acts. They contend that manufacturers should not be permitted to do to foreigners what they are restrained from doing to the people in the United States, that the forming of combinations in restraint of trade is not less reprehensible when applied to the exporting of goods than when it is directed toward manipulating the domestic market. The second group objects on the ground that the measure is of little, if any, practical value. According to their view, export combinations of manufacturers of non-competing but allied lines were not illegal before the passage of the law, and many such combinations have long existed; the most successful of these have developed gradually through the entrusting of export business, by a number of non-competing manufacturers, to a common export selling agent. It is doubted by the opponents of the Webb-Promerene Law that it will be possible to maintain, for any length of time, an agreement to act jointly in foreign fields while continuing one's competitive activities at home.

Some objections to the law have come from those who fear that it may prejudice their interests abroad; large business concerns which have built up a successful export trade do not view with favor the formation of combinations of smaller manufacturers which would enter foreign markets as their active competitors.

Present Status of Cooperation for Export Trade in the United States.—About sixty concerns were operating in July, 1923, under the Export Trade Act. The commodities handled by these concerns vary from buttons and clothes pins to locomotives and machinery, and from phosphate rock and sulphur to corn and milk products. Owing to the great variety of the goods handled, the organization of the con-

cerns differs in accordance with the character of the particular industry involved. In most instances, associations are incorporated under state law, though incorporation is not required by the Act, and some export associations operate under a simple association agreement.

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CHAPTER XXII

RECEIVING AND FILLING ORDERS

Inquiries from Abroad.—Inquiries from abroad are usually received in reply to sales-promotion work on the part of exporting manufacturers and merchants, such as forwarding of catalogues, advertising in trade papers and in other periodicals, personal solicitation, etc. Inquiries usually specify the particular commodities which the foreign buyer wishes to purchase and they contain, as a rule, a request for price quotations. Before answering an inquiry, most exporters are careful to ascertain the trade position of the prospective purchaser, i.e., whether he is a general importer, a wholesaler, a retailer, or an ultimate consumer; this permits them to avoid quoting the same price to various kinds of distributors and to consumers.

Export Price Quotations.—In quoting prices one should be explicit as to the contractual obligations into which one intends to enter with regard to the nature, the quality and the quantity of the goods, the place where and the time when they are to be delivered, the way in which they are to be packed, the discounts and rebates which one is prepared to give and any other terms on which the sale is to be effected.

Manufacturers may reserve the right to alter quotations should conditions warrant a change. As much time elapses between the sending of a quotation and the receipt of a reply, the privilege of changing prices is very important; one should bear in mind, however, that quotations subject to withdrawal at any time or to change without notice are not as effective in stimulating sales as are firm offers. What the foreign buyer wants to know is the cost of the product

to him at the place of destination. If an f.o.b. (inland point) or an f.o.b. (shipping port) quotation is made, it should be accompanied by a statement as to the probable weight and measurement of the merchandise after it has been boxed for shipment. Only by possessing such information can the importer ascertain more or less accurately the amount of freight charges and customs duties which he is likely to be called upon to pay and only such f.o.b. quotations are, as a rule, seriously considered by him.

Use of Abbreviated Forms in Price Quotations.—The use of abbreviated forms in export price quotations, without any definite agreement as to what the various abbreviations actually stand for, has been the cause of many misunderstandings and controversies between American exporters and foreign importers. The realization of this fact led the National Foreign Trade Council, the Chamber of Commerce of the United States, the Philadelphia Commercial Museum, the New York Merchants' Exchange, and a few other similar organizations to hold, in the latter part of 1919, a conference with the object of standardizing the American practice of making price quotations and of defining the meaning of each quotation as adopted by the conference.

Most of the quotations which the conference analyzed and defined were f.o.b. quotations. These quotations cause the greatest amount of confusion as to what the seller and the buyer undertake to do in connection with the transportation of goods and as to where the responsibility of the one ends and that of the other begins. The Conference put its interpretation on seven f.o.b. quotations, beginning with f.o.b. (named point), when the price quoted applies to the goods at an inland shipping place or wherever the factory may be, and where the seller merely undertakes to load the products on or in cars or lighters furnished by the railroad company, and finishing with f.o.b. vessel (named port), in the case of which quotation the seller's price covers all expenses up to and including delivery of the goods upon an overseas vessel. Besides interpreting f.o.b. quotations, the

Conference also defined such quotations as "f.a.s. vessel (named port)," "c. & f. (named foreign port)," and "c.i.f. (named foreign port)." The abbreviation f.o.b. stands for free on board; f.a.s. for free along side; c. & f., for cost and freight, and c.i.f., for cost, insurance, and freight.

The Conference voted to recommend to manufacturers and exporters that all use of abbreviated forms of export price quotations be abandoned and that such terms be written out in full, this being the most certain means of insuring unmistakable clarity in terms and conditions of sales. Recognizing, however, that the discontinuance of abbreviations constitutes too radical a departure from the prevailing practice and that it is not likely to be accepted at once, the Conference urged the manufacturers and exporters to simplify and standardize their quotations by ceasing to use various synonymous abbreviations, such as "f.o.b. mill," "f.o.b. works" or "f.o.b. factory" in favor of those adopted by the Conference. The Conference recommended the use, as far as possible, of "f.a.s. vessel," "f.o.b. vessel" or "c.i.f." which are readily understood abroad and not easily misinterpreted.

The need for being explicit applies also to the quoting of weights, as there are three different kinds of tons in use in the world trade, the net ton, the gross ton and the metric ton, and there are two kinds of hundredweights, one of 100 pounds and the other of 112 pounds. The best way to quote is, therefore, by stating whether the ton is one of 2000 pounds, of 2240 pounds, or of 2204 pounds, and whether the hundredweight is one of 100 or 112 pounds.

Indents.—Indent business originated in the Orient, and it characterizes the relations between native Asiatic wholesalers on the one hand and European and American houses on the other. There seems to be some misunderstanding as to what an indent really is, and the term has been erroneously applied to all orders coming from the Orient. An indent is not a direct order to a manufacturer or to a producer; it is an instruction to buy, which is given to a middle-

man. This middleman may be either an importer established in some maritime city in the Far East or an exporter-commission merchant or agent whose main office is in some European or American trading center. The purpose of an indent is to bind the indentor, i.e., the person initiating the transaction, so that he shall not be able to withdraw from it, unless released by the action or failure to act on the part of the indentee, the person to whom the document is sent. This method of dealing was adopted in relations with native Asiatic traders because many of them were found extremely unreliable, ready to avoid the fulfillment of contracts on the slightest pretext. Recent developments in the Orient seem to indicate that the indent procedure will have to be abandoned or modified in such a way as to meet the requirements of the people, whose national conscience is being awakened and who resent in an ever-increasing degree any action which casts a reflection on their character. The unreliable dealer is being supplanted by men who understand their obligations and are willing to meet them, and who demand that they be treated by Western merchants in the same manner as these merchants treat each other. The main objection raised against the indent is that, while it binds the maker of it or the indentor, it leaves the indentee free either to accept or to decline the indent, a certain amount of time being given him to signify his intentions.

The term indent is now applied by some to all instructions to buy when these instructions come to middlemen from overseas. Before accepting an indent, the merchant usually assures himself of a supply which would yield him a margin of profit on the sale, indent business being seldom handled on a commission basis. An exchange of cables and letters often precedes the conclusion of the transaction, as the price stipulated in the indent may be too low or a modification of some indent conditions may be required. As in a great many other business instruments, the indent is valid as long as it indicates clearly the inten-

tion of the maker of it; it does not need to follow any set form.

There are two kinds of indents: "open" and "specific." An open indent contains instructions to purchase commodities of a certain kind and quality and at a certain price, but it does not state with whom the order is to be placed or from whom the goods are to be bought, the middleman being left free to exercise his own judgment in this particular. Upon the receipt of an open indent, the merchant usually calls for samples and quotations; he compares these and gives preference to the goods which he can obtain on the best terms consistent with their quality, their adaptability to market requirements, and the services which the seller is likely to give in connection with the preparation of the wares for shipment, their packing, marking, and delivery.

An ever-increasing proportion of indents coming from overseas are specific, the indentors stating definitely the names of the makers whose goods are to be bought. This shows that the branding and trade-marking of goods and the carrying on of advertising campaigns has borne fruit in foreign as well as in domestic markets.

Filling Orders.—In foreign trade as in domestic business, much time, money, and effort is usually spent before an initial order is secured. The treatment of the first order should be such as to lead to the establishment of permanent business relations with the newly acquired client. Profits come from "repeat sales," and each new customer should be made desirous of dealing continually with a concern to which originally he may have been attracted through a convincingly written sales letter, a well-conducted advertising campaign or the persuasiveness of a commercial traveler. Goods should be always as represented and service the best that circumstances warrant.

Foreign orders should be filled very carefully, as it is exceedingly difficult to rectify mistakes after merchandise has reached its destination, frequently long distances from

the point of shipment. Instructions received from a foreign customer must be scrupulously followed unless they are manifestly wrong. One should recognize that it is often impossible for an exporter to pass upon the wisdom of the foreign client's directions; what may seem a preposterous request when goods are to be shipped to Champaign, Illinois, or to Eugene, Oregon, may, on the other hand, be one of the most necessary requisites for their safe delivery to some interior point in Peru or Ecuador.

The maintenance in each successive shipment of the same make-up of the goods, of the same design and color of wrappers, of the same shape of containers, is of considerable importance, particularly when merchandise is sent to industrially backward countries. Both the final consumers and the traders there are very suspicious; they look for known labels, and other external marks. Adherence to the established make-up of an article possesses in these countries something more than advertising value; the container is viewed as a component part of the merchandise, the buyer having, by commercial usage, the right to refuse goods packaged differently from those previously received.

PACKING FOR EXPORT

Proper packing is a very important factor in all trade; it is of particular significance when one deals with overseas shipments. The value of adequate and satisfactory packing as a means of maintaining and promoting foreign commercial relations can hardly be overestimated.

In packing goods for export one must provide both for general conditions common to all ocean transportation and for special contingencies peculiar to different parts of the world.

The general factors to be considered are the following:

1. The rough handling to which the goods are subjected when they are loaded into the hold of a ship and when they are subsequently unloaded into lighters or upon

wharves and piers. In case of trans-shipments the operation is repeated more than once.

2. The extreme moisture to which wares are subjected while they are on the water. There are few commodities which are not damaged in one way or another by moisture; cloths are discolored and decayed; foodstuffs are rendered unpalatable; metals and machinery are rusted; grains are heated and fermented; many minerals are dissolved and changed in chemical composition; even glassware, though not directly affected by moisture, is subject to breakage when straw or other packing material used gets wet.

3. The probability that boxes or other containers will be tampered with when on docks and in the holds of ships. Pilfering is a much more frequent occurrence in ocean transportation than in the movement of goods on land.

Special packing may be required because of the following conditions:

1. *Various methods of transportation existing in different countries and in different sections of the same country.*—In order to reach many interior markets of South and Central America, Asia, and Africa, pack animals are used; this necessitates the making of comparatively light packages, the weight varying with the kind of animals employed; thus, the load of a llama must not be over 100 pounds, that of a mule not over 250 pounds, while a camel's carrying capacity ranges between 350 and 400 pounds. To insure the maximum carrying capacity, packages are, as a rule, loaded on each side of the animal. This necessitates the making of packages not heavier than half of the carrying strength of the animal used.

2. *Port conditions.* Open road harbors, like those on the west coast of South America, require the unloading of ships while they and the lighters or barges into which the wares are unloaded are in constant motion; the up-and-down movements of ship and of lighter are by no means coincident, and the effect of this upon the merchandise, which is transferred in slings from one vehicle to another, can be

easily imagined. Many ports also lack modern cargo-handling appliances; goods are transported on the shoulders of men, who very seldom lower their burdens easily. It is not always carelessness or meanness that causes these longshoremen to drop cases on the ground; they are obliged to do so in order to conserve their strength, so often tested to the limit.

3. *Climatic conditions en route and in the country of destination.* Goods which are transported from the Northern into the Southern Hemisphere or vice versa must be packed with due consideration for the intense heat to which they are likely to be subjected when passing through the equatorial and tropical zones. In some regions of the world, when wares reach their destination, they may be exposed to torrential rains.

4. *Customs rules and regulations.* A high rate of duty is charged in some instances on the gross weight of the merchandise; if the containers and packing are heavy, the duty on them may exceed that on the contents and make the cost of the articles prohibitive to importers. The practicability of keeping the weights of containers as low as is consistent with the security of the goods is in such cases obvious.

An important consideration in connection with the packing of goods is the proper nailing of boxes; the strength of a box and its carrying capacity may be considerably reduced by the use of nails that are too small, by an inadequate number of nails, or by their being improperly placed.

While protection to goods, so as to insure their safe arrival at the place of destination, should guide one in packing, the fact should not be overlooked that steamship companies reserve the right to charge freight either by weight or by measurement, which ever yields them most. Boxing should not be such as to unnecessarily raise the cost of transportation.

Careful attention should be given to the placing of goods

within the case; freight charges are, as a rule, smaller when goods fit snugly in the container. Unused space must be filled with good packing material, wares being liable to much shifting if they are not packed tightly.

Proper packing requires, in many instances, technical knowledge and skill. The providing of proper containers adapted to the nature of the goods and to the requirements of transportation facilities is so important that it has enlisted, in this country and in other countries, the services of a number of qualified designers and engineers who, through tests in laboratories and through the study of how packages are affected by their handling in transit, have been able to detect the weak and the strong points of various packing materials and of various sizes and shapes of containers.

Of great aid in the advancement of the art of export packing has been the experimental work of the Forest Products Laboratory of the United States Department of Agriculture. The laboratory was established in 1910 at Madison, Wisconsin, and since that time it has been conducting painstaking investigations into the various methods of packing. Its services were of particular value to the Government during the War, when, according to some statements, it contributed to the saving of many millions of dollars by redesigning packing cases for overseas shipments. This laboratory stands ready to cooperate with private exporters in solving their packing problems.

A few private concerns, specializing in this country in what has been termed "package merchandising," devote their time to the designing and preparing of containers and shipping cases. Some of these firms control all the steps in the manufacturing of packing receptacles; they maintain their own testing laboratories, with staffs of experts; they operate their own paper mills, engraving and printing departments, etc. While their work bears largely upon the providing of "immediate" containers to be used in domestic business, their services can be utilized in connection with

the evolving of the best types of packages and boxes for overseas trade.

The price quoted by the manufacturer must include the cost of proper packing or must be accompanied by a statement that packing is to be charged extra. Foreign buyers are willing to pay the expenses of such packing as would insure the arrival of goods in an undamaged condition. It is a mistake to try to save on packing expenses so as to be able to quote a lower price or to make extra profits. Economy in packing, like any other kind of economy, is desirable only in so far as it is consistent with the achievement of the best results; in the case of packing, the aim is the protection of goods against contingencies which may arise in connection with their being moved from one place to another. If the quotation includes the cost of packing, the price quoted should be sufficiently high to permit the taking of all proper precautions.

Marking.—A study of the requirements of different countries as to the marking of packages is of great importance. Disregard of some regulations may occasion the consignor a great deal of annoyance and delay, and may subject him to the payment of more or less heavy fines. One can not be too careful in following instructions and in attending to details that may seem needless. Thus, some countries do not admit packages marked with a brush, but require that all marks be made with a stencil; other countries make it obligatory to mark on each package its net and gross weight in kilograms.

In order to guard against obliteration, all marks should be written in indelible ink. Such signs as "Fragile," and "Handle with care," even when translated into native tongues, accomplish little; often there is neither the desire, nor the opportunity to heed such injunctions, on the part of those who do the loading and unloading of ships. As previously stated, goods must be packed so securely as to make them as completely immune as possible to the consequence of the roughest kind of treatment.

Packages for export usually do not bear the name of the consignee, but are provided with some distinguishing symbols, letters, and numbers. This expedites the entry of goods on invoices, bills of lading and other documents, and makes easier the work of separating one consignment from another after the goods have been unloaded from the vessel. Moreover, the presence of the consignee's name on boxes is undesirable, because it assists would-be pilferers in guessing the probable contents of the cases. An added advantage of leaving off the consignee's name is that it prevents competitors from ascertaining who the exporter's clients are by merely sending some one to the pier to inspect packages awaiting shipment.

In following the importer's instructions as to packing and marking, the shipper is relieved of certain responsibilities. He has greater assurance that the wares will reach their destination in good condition, that they will pass the custom house without unnecessary delay and expense, and that the overseas importer will be pleased with the transaction in so far as it may be affected by the handling of goods in transit. Should the instructions be incomplete or difficult of fulfillment, a wise policy is to ask for additional information, pointing out the reasons for such request.

In the packing and marking of export shipments, one should bear in mind the bureaucratic habit of insisting upon a minute observance of all official regulations, a habit which is particularly strong in the case of minor officials, and which sometimes makes the commission of even the smallest error the source of the greatest annoyance, delay, and expense.

Export Procedure.—Export regulations in effect in the United States prior to the Great War were restored, except in a few cases, on June 1, 1920.

The first export requirement is the preparation by the shipper or his authorized agent of an export declaration; this must be filed in duplicate with the collector of customs at the port of exit, for all shipments, whether of domestic

or foreign origin, and whether destined to foreign countries or to non-contiguous territory of the United States. Declarations are also required for shipments from Alaska, Hawaii, and Porto Rico to the United States or to foreign countries.

When goods are shipped from an interior point on a through bill of lading, the carrier is held responsible for the delivery of the export declaration; the declaration is usually given to the carrier by the shipper at the time of the shipment and it accompanies the waybill.

For shipments from the interior on domestic bills of lading, the export declaration may be delivered to the carrier or it may be mailed to the consignee at the port of exportation.

The original of the export declaration is retained by the collector of customs, and the duplicate is certified by him and handed to the party designated to attend to the exportation. It serves as a permit to export and as evidence that the original shipper's declaration has been filed with the collector.

Goods are not accepted by vessels bound to foreign countries or to or from non-contiguous territory of the United States unless accompanied by export declarations, and clearances are not granted by the collector until a complete manifest and shipper's export declarations for all cargo on board have been filed with him. Any vessel departing for a foreign port without obtaining clearance is liable to a penalty of $500.

Description of articles exported must be in specific commercial terms, avoiding general designations such as fruits, groceries, dry goods, machinery, etc. The statement must give the total quantity and value of each class of articles and indicate the country of final destination.

Export declarations are used for the compilation of export statistics; they are forwarded by the collectors to the Bureau of Customs Statistics, in New York, immediately after the clearance of the vessel or the departure of the train,

in order to insure their inclusion in the monthly statistical reports.

Freight Forwarders.—Freight forwarders are shippers' agents who handle their cargoes at the seaboard. Forwarders perform a useful function in facilitating the movement of goods from consignors in one country to consignees in another. Being in constant communication with steamship companies, they are able to supply information as to the best routes and lines, dates of ships' sailings and current freight rates. Freight forwarders book space on outgoing vessels, prepare documents to meet consular, customs and steamship companies' requirements, attend to the transfer of shipments from railroad cars to the piers and on board ship, if instructed to do so, and perform many other acts which may be necessary in connection with the handling of shipments. Forwarders often combine small shipments, thus being able to quote lower rates than those charged by steamship companies on small packages if each package is sent separately; they are of special service when it becomes necessary to reweigh, or recondition the goods or to repair any damaged packages which the steamship company refuses to take except on a "foul bill of lading." The forwarders often prepay freight, undertaking its collection from consignors; they handle refused shipments to the best interests of the consignors.

The value of the freight forwarder's services to the shipper depends upon the extent and efficiency of his foreign connections, as in many instances goods are consigned to an inland importer and it devolves upon the forwarding house to make sure that the consignment is properly cleared at the port of entry and is shipped by the best available route to the place of destination.

Some forwarders, particularly European firms, have extended their activities beyond their original and primary functions; they cash drafts drawn by the shippers against consignees, operate warehouses, issue foreign money orders and letters of credit, buy goods and ship them on their own

account, represent insurance companies and steamship lines. While this may increase the forwarder's business, it should not be overlooked that by doing all these things, the forwarder enters into direct competition with other agencies, especially established to do this kind of work. Branching out into various activities means the spreading of capital and the scattering of effort; unless the freight forwarder possesses sufficient means, knowledge and experience, unless he can establish an efficient organization, he should not attempt to cover too much ground. As a rule, shippers will find it more advantageous to entrust the financing of business to banks and the insurance of goods to a competent insurance broker.

Many of the larger steamship companies have established their own freight-forwarding departments, offering the services of these departments to shippers. Unless cargo space has been engaged in advance, the services of a reliable, independent forwarder seem to be preferable; a steamship company sometimes holds up consignments for its own ships, and the rates it charges are at times somewhat higher than those which a forwarder can obtain by offering the shipment to different companies and selecting the one whose charges are the most reasonable. Freight-forwarding functions have been also assumed by some export commission houses which compete for business with professional forwarders.

One of the worst abuses which has crept into the forwarding business is speculation in ocean freight; it consists of buying or booking space on a ship for the purpose of reselling it to shippers at a more or less high premuim. Under such an arrangement consignees abroad pay a higher rate for transportation than the regular rate charged by the steamship companies; this naturally creates dissatisfaction and prevents the development of friendly commercial relations between consignors and consignees. Reliable freight-forwarding houses do not engage in such gambling operations; they do honorable, legitimate work, the character

of which has just been described and for which they receive a certain stipulated remuneration per ton of cargo. The extent of their commission fluctuates in accordance with the services performed.

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CHAPTER XXIII

IMPORTING

Character of Imported Goods.—Imported goods may be divided into two classes, staples and specialties, the latter being also known as shopping line articles. A large part of the class known as staples consists of producers' goods, raw materials or semi-processed commodities, such as wool, rubber, wood-pulp, tin, seeds, fertilizers, breeding stock. These commodities are bought by farmers and manufacturers, the latter using them, either independently or mixed with domestic materials, in the making of finished articles.

Some imported staples enter directly into consumption; among these are foodstuffs and beverages, such as coffee, cocoa, rice, bananas, pineapples, and other tropical fruits, as well as certain manufactures, like plain chinaware, kitchen utensils, and textiles. However, many kinds of imported consumers' goods belong in the class of specialties and novelties. They are creations of style and fashion, exclusive wearing apparel, millinery, laces, dress goods, and perfumes, face powders and soaps, in fancy receptacles, with fancy prices attached to them; scientific apparati and instruments of precision; statues, pictures, and thousands of articles of adornment and ornamentation.

Seasonal commodities are often imported because they are ready for the market at different times in various regions of the world. Thus, when Europe and the United States are held in the grip of winter, the warm summer sunshine matures the crops of Australia, New Zealand, South Africa and the West Indies; the products of their fields, orchards and gardens are harvested and sent to northern markets, where they are eagerly bought.

Some commodities, such as leaves, roots, barks, or seeds of many tropical and subtropical plants, are imported because of their medicinal value.

Importing Methods. Buying Staples.—The methods of buying staples, particularly such staples as may be classified as producers' goods, differ from the methods used in purchasing specialties. Staples are often bought according to certain established grades or types, the buyers relying upon foreign intermediaries to ship them the necessary goods. This method does away with the expense of maintaining a buying organization, but it is not conducive to the study of the various sources of supply for the purpose of obtaining the most desirable goods at most reasonable prices.

Traveling buyers are employed by our manufacturers in ever-increasing numbers; these buyers visit the consignment markets of Europe, as well as the merchandising centers of Australia, India, China, South Africa, and South America, in search of wool, furs, dyes, woods, and other commodities. Traveling buyers are also maintained by large importers of such staples as tea, coffee and spices. Many overseas staples are disposed of by means of auctions, and the presence of a buyer at such auctions has been found extremely desirable. However, the majority of American manufacturers are reluctant to assume the burden and risk of importing directly through their own buyers; they prefer dealing through importing houses established in this country.

Importing Houses.—Importers in the strict sense of this term act either on their own account or as commission agents. Many imported articles, particularly colonial goods coming from tropical plantations, require to be manipulated and conditioned before they are ready for the western markets. Such goods as coffee, tea, cocoa, dates, and spices must be cleaned, assorted, and often mixed and packaged. These functions are assumed by importers, who frequently sell the articles under their own brands.

Many houses combine import and export business, their organization at home and their connections in foreign coun-

tries making it profitable for them to engage in both activities.

Consignment Trade.—Some overseas staples are shipped to importers on consignment, importers operating largely as selling commissioners. The prevalence of consignment business in overseas staples is due to a number of reasons, the most important of which are:

1. Products usually come from capitalistically poor countries, whose exporters are financed by means of advances made by importers located in the United States or in Europe; these advances, which permit exporters to purchase supplies and other necessary goods, place them in a position of indebtedness to foreign importers. In order to meet their obligations, they consign their products to these importers, turning over the shipping documents to the importers' overseas banks.

2. Prices of many overseas staples are established at auctions held in merchandising centers of industrial countries which use the products. Outright purchases, before the price has been established, involve possibilities of loss due to a lower price being fixed at an auction; importers do not care to assume this risk. The creation of free zones in the United States would doubtless have the effect of increasing the volume of our consignment trade; at present many of our purchases of colonial goods are made at the auctions of London, Rotterdam and other entrepôt cities of Europe.

3. Shipment of overseas staples on consignment insures, as a rule, their sale at a reasonable market price easily ascertainable by the consignor.

4. There are a number of long-established, reliable, financially strong concerns to which merchandise may be consigned; these concerns are always willing and able to deal fairly with their overseas clients.

Auctions.—Auctions originated in the sixteenth century in connection with the sale of spices, condiments, silks, and other products brought from the Far East to Europe by the

large trading companies of the time. The supply was usually limited, and the arrival of the goods eagerly awaited; an auction under such circumstances was certain to result in high prices for imported wares. By bringing buyers together within a comparatively small area, the auction showed clearly the disproportion between supply and demand; it stimulated bidding and led to high returns for the company.

At present, auctions are held regularly at the larger consignment markets, like London, Amsterdam, Rotterdam, or Liverpool. The goods sold are tea, coffee, fruit, spices, hardwoods, rubber, wool, skin, tallow; the products come from Latin America, Australia, Asia and Africa. Shippers prefer having their goods sold at auction because the conditions of a public sale usually preclude the possibility of an unfavorable manipulation of the market or of concealment of the price received for the merchandise; auctions also expedite the sale of the goods. Some auctions are held in countries where the products intended for overseas markets originate. Such, for instance, are the wool auctions of Australia, New Zealand, and South Africa. Prices established at auctions, like prices obtained at private sales, depend upon the conditions of the market.

Importing Specialties.—The principal ways of importing specialties are as follows:

1. Through branches established abroad. Many importers, as well as importing wholesalers and retailers, maintain permanent offices in the leading foreign markets.

2. By sending buyers from the home office. These buyers make periodical trips to foreign markets for the purpose of selecting such articles as are most likely to appeal to the clientele of the houses which they represent.

3. Through local foreign commission houses having connections with manufacturers in their territories.

4. Through agents of foreign firms established in the United States. Such agents usually have display rooms and carry stock.

The method or methods adopted are determined by the nature of the goods and by the character and volume of the importing firm's foreign business.

A permanent foreign office presents many advantages, such as keeping in touch with foreign market conditions, early selection of goods, and personal supervision of shipments; however, the maintenance of such an office is possible only when the business is sufficiently large to warrant the expense.

Direct ordering by mail from foreign manufacturers is seldom resorted to; but correspondence plays an important rôle in the purchase of foreign goods; it is used extensively in conjunction with other methods of merchandising. In placing orders abroad, care should be exercised to avoid misunderstandings as to terms setting forth the price, the quality, and make-up of the goods, and the time and place of delivery; many foreign quotations are just as misleading to our importers as our quotations are to the importers of foreign countries.

Foreign sellers should be given instructions as to the packing, marking, and documenting of shipments, so that our custom house and other requirements may be complied with.

CUSTOMS PROCEDURE

Entry of Ship. Manifest.—Every vessel bringing merchandise from abroad must have on board a manifest indicating the port or ports whence the goods have been shipped, the names of the consignees, and the port or ports to which the cargo is consigned. Other data contained in a manifest are: the names of the owners of the ship, and of the captain, a description of the vessel, her name, character, admeasurement, tonnage and place of registration, a detailed description of the cargo, of the passengers and of their baggage and of the ship's stores on hand.

On arrival within four leagues of the coast or within the limits of any collection district in which the cargo is intended

to be discharged, the manifest must be produced for the inspection of any officer of the customs who may first come on board the vessel, and a copy of this manifest, signed by the captain, must be delivered to this officer for transmission to the collector of the port. The original manifest must be filed under oath by the captain or the chief officer at the marine division of the custom house, within forty-eight hours of the arrival of the vessel; the filing of the manifest constitutes the entry of the ship. Neglect to comply with these requirements is punishable by a fine.

There is no special form for the manifest; the document is accepted if it is in substantial compliance with customs requirements. If it is written in a foreign language, a translation must accompany it. If the cargo is to be delivered in different ports, the portions intended for such deliveries must be stated in the manifest in successive order.

If any merchandise not included in the manifest is found on board a vessel from a foreign port, such merchandise is subject to forfeiture, and the master of the ship is liable to a penalty equaling in amount the value of the goods not manifested. The forfeiture is not incurred and the penalty is waived if it can be proved that the omissions were made without fraudulent intent or that the manifest became defaced through accident. The captain is then allowed to make corrections by means of a post entry.

Upon receipt of the manifest and of any other papers which the ship may carry, such as lists of passengers, of sea stores, etc., a permit to discharge the vessel's cargo is granted.

All vessels coming into a customs district from abroad are subject to the direct control of district inspectors, who seal the vessel's hatches and openings and retain the custody of the ship until relieved by discharging officers. The latter supervise the transfer of goods from the hold of the vessel to the pier and direct the sending of merchandise ordered by the collector of the port for appraisement to appraisers' stores. No goods can be removed from the pier without a permit issued by proper customs authorities.

Entry of Merchandise. Declaration.—Within forty-eight hours after the arrival of the vessel, her cargo must be entered by importers at the custom house. Merchandise which is not so entered is sent to Government warehouses as unclaimed. If it remains unclaimed for a year from the date of its arrival it is sold by the Government. The most common ways in which goods may be entered are: (1) "for consumption," when the merchandise is cleared through the custom house immediately, (2) for "warehousing" in a bonded warehouse, appraisal to be made at the time of making the entry, (3) for "transportation without appraisement" over a bonded route to some interior port of delivery, and (4) for "warehousing and reexportation."

The first step in entering merchandise is to file under oath a declaration describing the goods in terms of the tariff law and giving their value in the currency of the invoices. The declaration must be filed by the importer. An importer, according to the customs regulations, is the person holding the bill of lading, which either names him as a consignee or is endorsed to his order by the latter. In case of a bill of lading drawn to the order of the shipper, the document must be provided with the shipper's endorsement.

The object of the declaration is to secure the sworn statement of the importer that the goods are invoiced at their actual cost or at their market value, if they have been sent to be sold on consignment.

As soon as the declaration has been made, the entry is considered complete and no changes in the declared values are permitted except for the correction of an evident clerical error.

Consular Invoice.—No goods over $100 in value, except personal effects accompanying a passenger, are admitted to entry without the production of a duly certified consular invoice, unless the impossibility of producing such an invoice at the time of the making of the entry can be shown to the satisfaction of the collector. The importer

must in sucn cases submit a pro-forma invoice and file an affidavit stating the reasons for the absence of the regular invoice; he must also give bond for the production of the consular invoice at a later date.

Before certifying an invoice, the consular officer is authorized to require from the person presenting it satisfactory evidence, either by oath or otherwise, that the invoice is correct and true. Consular officers are not expected to certify invoices unless they are " satisfied that the person making the oath thereto is the person he represents himself to be and that he is a creditable person."

An invoice must give a " correct, complete, and detailed description of merchandise " intended for importation, and of the packages, wrappings, and coverings containing it. The contents and value of each case or package must be separately specified. The invoice is signed by either the owner, the shipper, or the manufacturer of the goods or a duly authorized agent of one of these. Goods brought into the United States may have been purchased abroad or consigned for sale in this country after their arrival. In the first instance, the " Purchase Form of Invoice " is issued; this states the time and the place of the purchase of the merchandise, the person from whom, and the price at which, the purchase was made. In the second instance, a " Not Purchased or Consigned Form of Invoice " is used. This invoice gives the market value or wholesale price at which the merchandise described in the invoice is offered for sale in the principal markets of the country from whence exported.

Appraisement.—The entered goods are subject to appraisal, for which purpose the collector designates one package out of each ten of the goods of the same character. Bulky commodities, such as machinery, hides and skins, rice, etc., are usually examined on the docks; all other merchandise is transferred for examination at the appraisers' stores.

Pending the appraisal, the importer, by depositing the

amount of duty estimated by the collector on the basis of the declaration, may obtain a delivery permit for the remainder of the consignment. He must file a bond amounting to a sum double the estimated value of the merchandise and must agree to return to the custom house any packages delivered to him, upon the demand of the collector or the appraiser, within ten days after the merchandise has been appraised.

After the appraising officer hands in his report to the collector, the latter proceeds to liquidate the duties. If the duty based upon the appraiser's report exceeds the sum deposited by the importer at the time of the filing of the entry, the collector calls upon the latter to pay the additional sum due; should the amount ascertained on final liquidation be less than the sum deposited, the excess of the deposit is refunded to the importer. If the importer is dissatisfied with the established rate and the total amount of duty as determined by the collector, he may lodge a protest in writing within sixty days after the liquidation of the entry. In the absence of such a protest the rate established by the appraising officer and the amount determined by the collector become conclusive and binding, and the correctness thereof can not be questioned subsequently in any court of law. If the importer disagrees regarding the valuation of goods, he may appeal within ten days of the date on which he received notice of the advance in value. This appeal, together with the invoice and the appraiser's report, is forwarded by the collector to the Board of General Appraisers. The issue is tried by one of the general appraisers, who, on the basis of the evidence submitted both by the importer and by the customs officers, renders a decision. This decision can be appealed by the importer or by the collector to a board of three general appraisers, whose finding is final upon all questions affecting the value of imported goods.

Controversies between importers and customs officers may arise regarding the classification of the imported

merchandise and the duty imposed under such classification. Such disputes are due to the fact that the tariff can not and does not enumerate every commodity imported; it is left with the appraisers to decide under what schedule an article not mentioned in the tariff falls, and to assess the duty accordingly. Importers' protests and appeals are filed with the collector, who forwards them to the Board of General Appraisers. The President of the Board assigns the case to one of the sub-boards consisting of three members. If the decision of these three general appraisers is against the importer he can appeal the case to the United States Court of Customs Appeals. The application for review must be made within sixty days after the entry of the decree.

The Court of Customs Appeals consists of a presiding judge and four associate judges appointed by the President, by and with the advice and consent of the Senate. It exercises exclusive appellate jurisdiction over all questions of law and fact involved in the decisions of any board of general appraisers respecting classification and rates of duty or any other appealable matter. The judgment of the Court of Customs Appeals is final in all such cases. However, should the Constitution of the United States or any treaty made pursuant thereto be involved, then the case may be appealed to the United States Supreme Court. The Court reviews also those cases in which the Attorney General of the United States, before the decision of the Court of Customs Appeals is rendered, files with this Court a certificate that he considers the case so important as to render desirable its review by the Supreme Court.

Protests, in order to be considered, must be filed within sixty days of the liquidation of the duties, and they must contain a definite statement as to what the importer considers is the correct rate of duty to be assessed. Should the general appraisers decide upon a rate different from that contained in the protest, even though their rate may be more favorable to the importer, then the relief is denied.

Mr. W. E. Aughinbaugh in his book, "Selling Latin America," vividly describes some of the difficulties which may be encountered in clearing goods through a custom house, when the interpretation of the tariff as to the classification of merchandise is left in the hands of administrative officers. Officials in some of the Latin American republics seem to delight in placing as many obstacles as they possibly can in the path of importers. Thus, a druggist in a certain Central American republic, the tariff of which had clinical thermometers on the free list, entered at the custom house one hundred thermometers. The customs collector classified thermometers as "etched glass containers," and their contents, mercury, as an explosive subject to a prohibitive rate of duty. A fine of $500 was added for an attempt "to evade the customs." In another instance, a carrousel or "flying horse" outfit was refused admittance unless the owner, who had expected it would be admitted free of duty as an amusement appliance, paid $25 for each wooden horse, this being the rate provided in the tariff for breeding stallions. A fine of $80 was imposed by another collector on a box of candy, because the nature of the ingredients in each separate piece of candy was not indicated in the declaration.

Entry and Examination of Imported Teas.—The importation of tea is subject to special control by qualified examiners, who have the power of either accepting or rejecting it. If the examiner finds the tea inferior in purity, quality, or fitness for consumption, to the established standards, he holds it in bond until it is either destroyed or reexported. In case the importer, consignee, or collector disagrees with the findings of the tea examiner, the matter is referred to a board of three general appraisers designated by the Secretary of the Treasury. The decision of these is final. Special rules have been prescribed for testing teas, as to the quality of the infusion, the presence of foreign substances, and of coloring matter, or scum. In case the tea contains an excessive amount of dust, the latter may be removed by

sifting; the tea is then admitted to entry if it is found to conform to standard.

Importations by Mail.—The exchange of mails with foreign countries is carried on in accordance with the provisions of the Universal Postal Convention and of the special Parcel Post and Postal Conventions. In the absence of special conventions, the sending through mails of articles liable to duty is forbidden, and the senders expose themselves to fines. The regulations of parcels conventions permit the sending of dutiable articles if so wrapped as to permit an easy examination of contents. The packages must be accompanied by customs declarations containing an accurate description of the goods as well as their value. The value limit from European countries is $50; if the value is greater, the parcel is returned to the country of origin. The forwarding of dutiable articles in sealed packages is not allowed. If a sealed package presumably containing such articles is received, the addressee is notified to appear and to open the package in the presence of a customs officer; if the package is registered, it is opened in the presence of a representative of the postmaster. Should there be no customs officer at the place of the delivery of the parcel, the latter is sent to the nearest custom house district office for examination.

All articles seized as illegal importations may be released and the fine remitted, provided such articles are sent back to the foreign sender.

Commercial Samples.—There is no special provision in the United States tariff for the admission of commercial samples free of duty. They may be imported under bond for their reexportation within six months from the date of their arrival.

Samples possessing no commercial value are admitted free, not because they are samples but because they are commercially valueless. Samples having a commercial value, if they are not imported under bond, are dutiable in accordance with the provisions of the tariff.

Special Free Importations.—The following articles may be imported free, provided they are not kept longer than six months: models of women's wearing apparel for the purpose of copying by manufacturers of such in this country; articles intended solely for experimental purposes; machinery brought for alteration and repair; samples solely for use in taking orders for merchandise; automobiles, motor cycles, airplanes, motor boats brought by non-residents for touring purposes or for the purpose of taking part in races or other contests.

Reimportations.—Household and personal effects taken abroad may be brought back free of duty, provided proper measures have been used to insure their identification. Articles produced in the United States and shipped to foreign countries may be reimported without the payment of duty, provided they are returned in the same condition as when exported and are reimported by or for the person who exported them; if the article has undergone some elaborating process while abroad, the duty is assessed as if it were a foreign product. Articles exported for repairs pay duty only on the value of the repairs, provided the outward shipment has been made in compliance with customs regulations and under governmental supervision.

Baggage.—Wearing apparel, articles of personal adornment, toilet articles and similar personal effects of "non-resident" individuals arriving in the United States are admitted free of duty in so far as these articles are necessary and appropriate for the wear and use of such persons and are intended solely for such wear and use. Residents of the United States returning from abroad may bring back, free of duty, all wearing apparel, personal and household effects which they took out of the country, upon their identity being established under rules and regulations prescribed by the Secretary of the Treasury. Articles acquired abroad by American residents, for personal or household use or as souvenirs or curios, up to and not exceeding $100 in value, are also admitted free of duty.

Passengers must prepare and sign their baggage declarations on board their steamer at least one day before arrival, and they must hand these declarations to the purser for delivery to the proper custom officer on coming into port. Undeclared dutiable articles contained in baggage are subject to seizure and forfeiture unless the collector feels satisfied that there was no intention to defraud. Baggage and other property of passengers are unladen in the presence of inspectors or other officers of customs, who may require the delivery of the proper keys or the opening for examination of any trunk, traveling bag, valise, or other envelope in the possession of the passenger.

Customs Frauds.—The two most important kinds of customs frauds are: (1) intentional undervaluation, and (2) smuggling.

The United States tariff provides that if the appraised value of any merchandise exceeds the value declared in the entry by more than 75 per cent, such entry shall be held to be presumably fraudulent. The collector of customs is empowered to seize the undervalued goods, and these goods are forfeited, unless the importer can prove by sufficient evidence that there was no intention to defraud the treasury. Goods are forfeited if an attempt is made to enter them into the United States by means of a false invoice, declaration, affidavit, or any other statement, written or verbal, or by means of any fraudulent practice. Persons convicted of attempting to make or of having made such an entry are held criminally liable; they are subject to a fine not exceeding $5000, or imprisonment for not more than two years, or both.

No merchandise can be brought into the United States, from any foreign port, in any vessel, unless this merchandise is included and described in the manifest, which must be signed by the master and carried on board the vessel. Merchandise not mentioned in the manifest is subject to forfeiture, unless the captain can prove that the manifest has been defaced by accident, or has been made incorrect through clerical error.

The failure to declare in an invoice all the goods contained in the packages which the invoice covers is construed as an attempt to smuggle, and unless the importer can prove that he had no intention to defraud, the merchandise is forfeited.

Smuggling may be committed: (1) by persons who make it their business to fraudulently and knowingly bring merchandise into the United States, contrary to law, or (2) by incoming passengers who often do not realize the seriousness of the offense which they are committing. In both cases articles are subject to seizure and forfeiture. The offenders in the first case, if convicted, may be fined a sum not exceeding $5000 or imprisoned for any time not exceeding two years, or both; the penalty which may be imposed upon any person in whose baggage are found undeclared articles is a fine equal to treble the value of such articles.

Rewards are granted to those who detect and seize smuggled goods, as well as to those who furnish information regarding any fraud likely to be perpetrated on the customs revenue.

Customs Brokers.—Customs brokers act in behalf of importers in clearing merchandise through the custom house. The many rather complex problems which arise in connection with the entry of goods make it desirable to entrust the work to a broker, who is a specialist in his line and who can handle the affair in a more satisfactory manner than the importer himself. There are various blank forms to be used and each form must be filled in strict accordance with customs rules and regulations. Non-compliance with the requirements of the tariff law and the customs administrative provisions, however trivial it may seem to the importer, may mean annoying delays and in some instances the payment of costly fines. Some blank forms are furnished free of charge by the Government, others must be bought either from the Government or from authorized private concerns, still others are printed by the importers

themselves or are obtained from the various offices handling the imported goods.

The customs broker is guided in his making of entries by the client's invoice and bill of lading. He estimates the amount of duties owed, reducing them to terms of United States currency, and he notifies the importer of his findings. The amount of duties, as calculated by the broker, is deposited with the collector of the port, after which he receives a delivery order. The broker generally attends to the release of that part of the merchandise which has been sent to the appraisers' stores and he takes care of the final settlement of duties. The broker should be provided with full powers to act as the importer's representative in all contingencies which may arise in connection with the clearance of goods.

A number of brokers have taken upon themselves the functions of forwarding agents, attending to the shipment of merchandise to any place the importer may direct, either in bond or after it has been passed through the custom house. All custom house brokers are licensed by the Secretary of Treasury; their licenses are subject to revocation should they be found guilty of fraud or of any other act prejudicial to the service.

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CHAPTER XXIV

FINANCING FOREIGN SHIPMENTS

The various methods of financing foreign trade may be classified as follows: (1) cash with order; (2) open credit or open book account; (3) drafts drawn by the seller on the buyer to be either paid upon presentation or accepted by the buyer, the latter method giving rise to trade acceptances; (4) commercial letters of credit. The subdivisions of the last-named form of credit are cash or straight credit and banker's acceptance credit.

Cash Terms.—There is nothing peculiar or condemnable in the demand that cash be provided by totally unknown buyers before merchandise is forwarded to them. Unless such buyers can furnish evidence of their ability and willingness to meet their obligations when these fall due, they can not expect credit from sellers. When these buyers live in foreign lands there are additional reasons for exercising caution in the extension of credits; collections of overdue accounts are much more difficult when debtors are separated from creditors by thousands of miles and when there is the necessity for contending with diversity in commercial laws and customs. The error lies not in demanding cash, but in demanding it, as our manufacturers have often done, from foreign importers who possess a high commercial rating and whose credit worth and business integrity can be readily ascertained. A refusal to grant such firms credit results in a regrettable loss of business. Some foreign importers refuse to make cash payments because they consider that a demand for such payments casts reflection on their commercial honor. A more important cause for refus-

ing such payments is that they immobilize the importers' funds for too long a period of time. Many foreign importers object to paying cash because of the very unpleasant experiences which they have had with some manufacturers who refused to ship goods except on a cash basis. After the receipt of the purchase price these manufacturers were guilty of delayed deliveries, of careless packing, and in some instances of substituting inferior goods. Manufacturers demanding cash should recognize that, as a rule, foreign buyers know as little about them and about their trustworthiness as they do about foreign buyers.

Cash remittances are also objectionable to foreign buyers because in the case of a manufacturer's failure before he ships the goods, the remitted funds become absorbed in the bankrupt estate. The foreign importer must then take his chances with the other creditors of the concern. While in normal times such contingencies seldom arise, their possibility exists and acts as a deterrent to cash payments.

Partial Payments in Advance.—A partial payment in advance is not a satisfactory arrangement for the exporter unless the payment received is sufficiently large to cover all the expenses which it may become necessary to incur should the acceptance of the goods be refused by the consignee. A small payment in advance is not a guarantee of "good faith," and it does not safeguard the interests of the exporter to such a degree as to be considered a desirable merchandising device in foreign trade. Cases are known where schemers have resorted to such payments for the purpose of securing shipments of goods, only to reject them upon arrival. Refusal to accept usually places exporters in a difficult position, and they have often no alternative but to offer the goods for sale at lower prices.

Open Credits.—Open credits or open accounts are the least desirable form of mercantile credit. The disadvantages of this kind of credit are more pronounced in foreign than in domestic trade. Such credits in export business were first confined to dealings between neighboring coun-

tries, where the ascertainment of the financial status of the credit seeker and the supervision of accounts was a comparatively easy matter and where, in case of delinquency, action could be promptly taken.

Open credits were adopted in overseas business for two reasons: (1) because exporters found that where importers had become accustomed to such credits, they refused to do business on any other terms, or (2) because loose methods in extending credit were conceived as a competitive device to win trade. It is needless to say that in adopting such methods for the latter reason, one is dealing with a most reprehensible form of competition—a form which can not be too strongly condemned. It may bring some temporary favorable results, but business thus gained carries within it the germs of its own destruction; it rests not on the solid foundation of real service, but on the casting aside of sound business principles, on the degradation of credit.

Previous to the War, few American manufacturers were guilty of shipping goods on open accounts; if they erred, it was in the opposite direction; they refused to grant any kind of credit, demanding cash against documents. Open account business was carried on, if at all, by export commission houses. These houses can sell on such terms more easily than manufacturers because of their more intimate knowledge of foreign markets. Commission houses act as agents for foreign importers, with whom they maintain close relations; they usually charge interest on money which they advance for them to manufacturers and they reimburse themselves at maturity by means of drafts.

The granting of open credits should not be considered by manufacturers unless they have local representatives abroad who can attend to the adjustments of complaints and to the securing of payments.

Similar to an open credit operation, but somewhat more satisfactory from the shipper's standpoint, is the dispatch of shipping documents directly to the importer and a simul-

taneous drawing of a clean (non-documentary) draft against him. Like an open account, such procedure implies complete confidence in the foreign importer. Its advantage lies in the fact that, with the acceptance of the draft, a binding evidence of indebtedness is created. An accepted draft also fixes a definite time for payment and it eliminates the tying up of funds in book accounts; an accepted draft being a negotiable instrument, the shipper may obtain funds on it before the maturity of the document.

Bills of Exchange or Drafts.—International commerce is financed largely through the medium of bills of exchange or drafts. It was in this commerce that men first learned to dispense with the direct use of money in settling accounts. During the Mediterranean era of commerce, the difficulty and danger of transporting large quantities of precious metals over great distances led to the invention by Lombardian Jews of the bill of exchange; the use of this document spread rapidly to different countries.

Drafts may be either "clean," that is, unaccompanied by documents, or documentary. Most of the drafts used in foreign trade are documentary. If the goods are sold for cash at destination, the draft is drawn at sight with the documents representing the shipment attached to it; these documents are delivered to the foreign buyer upon payment by him of the amount due. If credit is extended, the draft, in accordance with the terms of sale, is drawn at thirty, sixty, or ninety days sight or thirty, sixty, or ninety days from date of the invoice, the attached documents being delivered to the importer upon his acceptance of the draft.

Exporters usually offer their drafts for discount to their local bankers. The negotiability of a documentary draft, reading "documents against payment," is influenced primarily by the nature of the goods shipped. Staples are considered a much more desirable collateral than novelties, articles of fashion, or perishables, as they possess a higher degree of salability and less likelihood of depreciation in

value. The financial responsibility of the drawer of the bill is the next important consideration. His responsibility, as well as that of the drawee, are of primary importance when the draft reads "documents against acceptance," as in this case the banker, after the surrender of the documents, loses the security offered by the control of the merchandise. Irrespective of the nature of the draft, the drawer remains liable until the draft has been paid by the drawee.

A documentary draft has the following fundamental documents attached to it: a full set (three) of negotiable bills of lading made out to order and endorsed in blank, a certificate of marine insurance in duplicate, two copies each of the invoice and of the memorandum of weights and measurements. All these documents are surrendered to the bank, which thus acquires the title to the goods.

The draft and the documents are forwarded to a correspondent bank in the importer's territory. If the draft reads "documents against acceptance," the bill of lading and other papers must be delivered to the foreign importer upon his acceptance of the draft. In such cases a *trust receipt* is often required by the foreign banker from the importer. The purpose of the receipt is to make the importer accountable for all goods delivered to him.

The amount which the exporter receives from the bank is the face value of the draft minus collection charges and interest for the time the draft is to run until maturity. When the banker is dissatisfied with the nature of the goods against which the draft is drawn, or when he doubts the financial responsibility of the drawer or drawee, he may, instead of buying the draft, offer to advance on it a certain amount of money, varying in accordance with the conditions of the case.

Banks often take exporters' drafts for collection, agreeing to act as their agents abroad. They send such drafts to their branches in the importer's territory, if such exist, or to correspondent banks.

Commercial Letters of Credit.—Although there is great variety in the commercial credits issued by banks in connection with the financing of foreign trade, fundamentally all such credits have one thing in common: they represent an authorization for the shipper of goods, to whom money is due, to draw on some bank instead of drawing on the consignee. In accordance with the agreement entered into, the authorization may be for an American exporter to draw dollar drafts on a bank in New York, sterling drafts on a bank in London, or drafts in any other currency on a bank in some other commercial center of the world.

Cash or Straight Credit.—If the exporter is authorized to draw sight drafts on the bank the credit is known as cash or straight credit. It permits the exporter to obtain cash as soon as the goods are ready to go forward to the foreign importer.

The opening of cash credit by a foreign importer possesses great advantages both for him and for the seller. Cash credit specifies that payment must be made to the exporter upon the presentation by him of proper shipping documents. As a rule, under such an arrangement, a time limit is set, after which the credit expires. Thus the importer does not need to immobilize a part of his capital, as is the case when the terms are cash in advance. The arrangement enables him to pay a cash price, at the same time safeguarding his interests in that he does not pay until the goods are actually shipped, the shipment being evidenced by the delivery to the bank of the bill of lading and other documents. The importer is also assured of shipment on time, as long as the manufacturer wishes to take advantage of the commercial credit opened in his favor. However, there is no guarantee that the manufacturer will ship the goods should circumstances make it more advantageous for him to withdraw from the contract.

The advantages to the manufacturer lie in the assurance of the forthcoming payment. As he does not assume any merchandising or credit risks, he is enabled to quote the

lowest price, thus increasing his ability to compete. Being assured of the payment for the finished product, the manufacturer can attend to the purchase of raw materials and supplies and carry on his manufacturing activities without having to worry about the disposal of the goods.

Acceptance Credit.—Credit opened by means of an acceptance letter of credit differs from cash credit in that, under such a letter, the exporter does not obtain money upon the presentation of shipping documents; he is merely authorized to draw a time draft on a bank designated by the foreign importer, the bank assuming the responsibility of accepting the draft. The accepting bank is protected by having the shipping documents made out to its order. The financial relations of the accepting bank are not with the importer but with the importer's local bank, to which it forwards the drafts. The letter of credit may be (1) "unconfirmed," in which case it is a mere permission to draw when the shipment is ready, without any engagement on the part of the bank to accept the draft, the buyer or his local bank abroad having the right to withdraw the credit, (2) "confirmed," in which case the bank assumes the obligation to pay when the documents are presented; no cancellation by the foreign importer is then possible as long as the seller fulfills the conditions of the letter of credit. The confirmed credit can be canceled or modified only with the consent of all interested parties, i.e., the applicant for credit, his banker, the accepting bank, and the seller. The responsibility for remitting the money rests with the importer's bank, which must attend to the reimbursement of the correspondent bank in time to permit the payment of the draft at maturity.

Confirmed credits are one of the best methods of financing export trade; they have proved to be most satisfactory both for exporters and importers. Such credits minimize the risk of shipping goods abroad, thus enabling exporters to quote low prices; at the same time, they do not place any unnecessary financial burdens upon foreign importers. British

dealers have been using confirmed credits with much success in most of their foreign merchandising.

During the after-war experience with canceled orders, refused shipments, and dishonored drafts, an attempt was made to undermine the validity of commercial credits opened with the banks. It is fortunate that through this dark epoch of weakened business morals, when so many merchants were casting aside their obligations as if they were mere "scraps of paper," most of the banks remained steadfast in their adherence to the principles which had guided them in all their previous dealings. No pressure from outside and no inside losses could induce the majority of the banks to deviate from playing fair, from maintaining the highest standards of integrity in meeting obligations, whether these were entered into in their own name or in that of others. However, the difficult position into which the banks were placed led some of them to refuse to honor their confirmed letters of credit, thus revealing the looseness of the methods under which they were operating.

This resulted in the calling together in the United States of the "Commercial Credit Conference" of American bankers which, with the assistance of the American Acceptance Council, bent its efforts toward devising credit instruments which would be free from uncertainties even in times of distress. In 1922, after two-years of study, the Conference recommended a standardized practice the adoption of which, the bankers hoped would make impossible the recurrence of the conditions of 1919. The main task was to define clearly the obligations of the foreign buyer, of the foreign buyer's bank opening the credit, and of the bank undertaking the payment of drafts drawn under the credit so opened. Three standard types of letters of credit were recognized: (1) a "revocable" letter of credit or mere "authority to pay," the opening bank reserving the right to cancel or modify the letter of credit without notice to the shipper of goods; (2) an "irrevocable" letter of credit, constituting a definite engagement on the part of the issu-

ing bank to pay the seller or beneficiary as long as the latter fulfills the conditions of the credit, and (3) an "irrevocable confirmed" letter of credit, in the case of which not only the issuing bank but also its correspondent, the notifying bank, assumes the responsibility for the payment of drafts drawn by the beneficiary under the letter of credit.

A number of standard commercial credit regulations were adopted, one of the chief purposes of which was to define what constitutes shipment and what is to be regarded as evidence of shipment. Under these regulations the bankers are not to accept: (1) railroad export and forwarders' bills of lading, (2) bills of lading containing words qualifying the acceptance of shipments in apparent good order and condition, (3) bills of lading permitting transshipment, (4) "received for shipment" or "alongside" bills of lading, the date thereof taken to be the date of shipment. The terms "prompt shipment," "shipment as soon as possible," "immediate shipment," or words of similar import are to be interpreted as requiring shipment to be effected within thirty days; and if no date for presentation or negotiation is stated, such presentation or negotiation must be made within thirty days from the date of credit or advice.

It is permissible to draw against the shipment of any part of specified property, if the pro rata value can be verified. Other regulations consider shipment in installments, extension of the date of shipments, time of presentation of documents, etc.

Revolving Credit.—A revolving credit may be defined as a credit established for a certain amount, which, when drawn against in stipulated sums is automatically restored by the fulfillment of certain conditions, such as the payment of outstanding drafts. There are three forms of revolving credits:

(1) First and most common is credit established for a maximum amount, against which drafts may be drawn for various sums and at various times against documents indicating

shipment. When these drafts are paid, in due course, the proceeds are restored to the credit amount for future use.

(2) The second form enables the beneficiary to draw a certain sum at one time and in one draft. When that bill has matured and is paid another similar sum may be drawn in a similar way.

(3) Under the third form one must draw against credit in one bill for the full amount, whereupon it becomes immediately available again for similar drawing, and so on over and over until the time limit is reached.

Essential Parts of a Commercial Letter of Credit.—A commercial letter of credit must contain:

(1) The names of the four parties to the commercial credit: the bank which opens it, the exporter or shipper in whose favor it is opened, the importer for whose account it is opened, and the paying or accepting bank on which the exporter or shipper is authorized to draw.
(2) The terms on which the bills of exchange are to be drawn.
(3) The amount of credit which has been opened.
(4) The name of the firm to whose order the bills of exchange are to be drawn; they are usually drawn to the order of the bank which issues the letter of credit.
(5) The length of time for which the credit is to remain in force.
(6) Where the insurance is to be placed and what disposition is to be made of the insurance policy and other documents.

Financing Shipments under the Federal Reserve Act.—Before the inauguration of the Federal Reserve System, great limitations were placed upon American banks in connection with the financing of foregin shipments; owing to these limitations, most of our exports and imports were financed by foreign banks, usually through London. The disadvan-

tages of such an arrangement lie in the extra expense and risk attached to an additional foreign exchange operation and in the necessity for handing over invoices, bills of lading, and other documents to foreign bankers.

The Federal Reserve Act, approved on December 23, 1913, and amended many times since, provided us with proper machinery for financing both domestic and foreign business. The Act authorized national banks possessing a capital and surplus of at least $1,000,000 to establish branches in foreign countries. It allowed also the acceptance by member banks of drafts drawn upon them, if these drafts were the result of trade transactions, domestic or foreign. The banks were empowered to offer such acceptances for rediscount with the federal reserve banks in their respective districts.

Until March, 1922, the Federal Reserve Board, which was created to supervise the workings of the Act, required that banks under its jurisdiction should not accept bills unless documentary evidence of the transaction had been presented to them. According to a ruling passed in March, 1922, the banks were authorized to accept bills in amount up to 10 per cent of their capital stock without having in their possession such documentary evidence. This removal of restrictions permits New York banks to compete on more equal terms with the financial institutions of London and other European cities. It is possible to obtain acceptances from European banks by cable after a shipment has been made, while previous to the passage of this ruling, in order to obtain an acceptance of a foreign bill in New York it was necessary to have the documents covering the transaction mailed to that city. This was a procedure which involved loss of time and therefore was not often used.

Dollar Exchange.—The legalization of bank acceptances enabled American importers to make arrangements with the banks in this country authorizing foreign exporters to draw in dollars directly on these banks, and it permitted foreign

importers to open credits in American banks upon which American exporters might draw. Bank acceptances originating in this way represent commercial papers which are bought by those seeking safe short-term securities. A discount market has thus been created in New York which is similar to the market in London, though it is not as active or as fully developed as the latter.

The Edge Law.—The Edge Law authorized the establishment of financial institutions under Federal charter for the express purpose of engaging in the financing of foreign trade. The Federal Reserve Board has the same powers of supervision over Edge Law corporations as it has over the national banks, and it determines the adequacy of the securities offered as collateral by such corporations. The Government, however, does not assume any responsibility with regard to the notes and debentures of the corporation. An Edge Act corporation may extend long and short-term credits, invest in foreign securities, and purchase bills of exchange. It may also, with the approval of the Federal Reserve Board, issue and sell to the investing public its own notes and debentures to an aggregate amount of ten times its paid-up capital and surplus, the collateral against the issue of such notes and debentures being foreign securities.

The greater number of foreign trade banking organizations so far formed under the Edge Law have been acceptance enterprises, because funds can be obtained with greater ease from the acceptance market than from the investment market. The development has been disappointing from the standpoint of those who expected that the passage of the Edge Act would facilitate the granting of long-term credits and would widen the field of investment in the securities of foreign concerns.

Edge Law Corporations are not permitted to engage in domestic banking except in so far as this may be incidental to their financing of foreign trade.

The Trade-promoting Services of American Banks.—In their effort to assist those producers and merchants who

seek foreign outlets for their goods, some of the larger American banks have gone far beyond providing mere facilities for financing shipments. They have become, in recent years, gatherers and disseminators of both general and specific trade information, students of foreign business conditions, capable and ready to advise their clients not only as to the credit worth of foreign importers and agents, but also regarding the needs and demands of foreign markets, the best methods of reaching these markets, and the most desirable channels for distributing goods there. Some banks undertook the handling of individual shipments, the reporting on the progress of these shipments, and many other functions decidedly outside of their regular sphere of action. This led to the taking of mercantile risks with resultant great losses to the banks when collapse in prices brought with it a cancellation of orders, a refusal to accept shipments and a repudiation of debts. The rapid growth of foreign trade during and immediately after the Great War caused some of our banks to overlook the fact that the functions of a bank is to give banking service and not to carry on mercantile transactions. While banks can not avoid taking some chances when they advance funds to the shippers of goods, their risks should be always properly safeguarded; banks must refrain from entering into intricate relations with foreign buyers of their clients' goods The desire to encourage foreign trade should never lead to looseness in banking methods.

Branch Banks.—Branch banks in foreign countries are desirable as a means of facilitating international trade.

Two methods have been adopted for extending American banking interests into foreign lands: (1) the establishment of branch banks to be directed by men sent from the home bank; (2) the securing of control of some local foreign bank through the purchase of the majority of stock.

The first method is the best one to use in those places where banking facilities are inadequate or where the banks are controlled by foreign interests. The newly established

branch bank is more than likely to meet animosity and opposition on the part of the already existing banking houses, but this attitude may be overcome; given a strong financial backing and a personnel possessing the power of quick adaptability to new conditions, the branch bank may soon gain a position of equality, if not of preeminence, in the financial affairs of the territory which it serves.

The second method has the advantage of securing from the beginning the cooperation of some of the native business men, who are represented in the directorate and the management of the bank and who continue to hold a certain amount of its capital stock.

Legislation restricting the business of foreign banks or of imposing special taxes upon such banks is very shortsighted. Such legislation handicaps the development of foreign trade and leads to the creation of international ill will. There is much reason to believe that foreign branch banks bring a greater volume of business into a country than is the amount which they take away from local enterprises. It seems certain that the liberal treatment accorded to foreign bankers and traders by Great Britain has not been prejudicial to either the banking or merchandising interests of the Kingdom; on the contrary, it has helped England to achieve her position of predominance in the world's finance and commerce.

The International Acceptance Bank.—The establishment in New York, in 1921, of the International Acceptance Bank, Inc., marks a new departure in the organization of our banking relations with foreign countries, for the purpose of meeting the various financial problems arising in connection with our export and import transactions. In its functions in this country, this bank does not differ from the foreign trade departments of other large banking houses; but, whereas these houses either have branches abroad or do business through correspondent banks with whom they maintain more or less loose relations, the International Acceptance Bank has invited some of the leading banking

firms of Europe and of Canada to become stockholders, thus securing for itself the benefit of their support and close cooperation. The main advantages claimed for such an arrangement are: (1) that the intimate relations with the old foreign banks offer to the International Acceptance Bank a wider and safer channel for foreign trade financing; (2) that the arrangement does away with the expense, risk and responsibility of operating branches in distant countries; (3) that it provides facilities for securing prompt and reliable foreign trade information and advice, which may be of great value to the house as well as to its customers, particularly at a time when financial conditions are uncertain and unstable.

Some leading banks in the United States have taken a stock interest in the Acceptance Bank. It was incorporated under a charter of the State of New York, and is operated in accordance with the provisions of the Federal Reserve Act and under the supervision of the Federal Reserve Board.

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CHAPTER XXV

FOREIGN CREDITS AND COLLECTIONS

Foreign Credit Department.—The Foreign Credit Department is concerned primarily with passing upon foreign credit risks and with making collections. It is usually placed under the supervision of a foreign credit manager, who employs such assistants as he may deem necessary for the proper functioning of the department. The organization should be such as to permit a prompt acceptance or rejection of orders in accordance with their desirability and, should credit relations be found desirable, the fixing of credit limits. As in domestic trade, the mere keeping down of credit losses does not necessarily imply efficiency on the part of the credit manager; one of the functions of the credit department should be the assisting of the sales department in the promotion of advisable sales.

It is easy to avoid losses by refusing to do business with those of whose credit worth and integrity one is not absolutely certain. However, the acceptance of only absolutely safe accounts has the effect of reducing not only losses but also the amount of sales. The most successful credit man is the one who can pass favorably upon the largest number of orders and at the same time keep his losses to a minimum. Conservatism or liberality in granting credits is to a certain degree determined by the margin of profits made on sales; where the margin is large, longer chances can be taken than where it is small.

A Foreign Credit Department can not function properly unless it is equipped with well-devised and carefully maintained files consisting of comprehensive, up-to-date records

of the concern's customers. A file is provided for each customer; it contains letters exchanged, memoranda, notations. The files are usually arranged alphabetically and are indexed by countries and towns. Some credit departments, in addition to files, have a card index system, each card containing brief, readily available information regarding each client's account. A card index system obviates the necessity of continually referring to the files; these are consulted only when circumstances make it necessary to consider the complete history of the customer's account.

Many exporters who formerly thought that it was not necessary for them to know the financial standing and the business reputation of foreign importers, because they were shipping goods on documents consigned to themselves and accompanied by instructions not to surrender until payment had been made, discovered that a long-range C.O.D. (cash on delivery) business is not always as safe and profitable as it may seem. Unreliable firms are only too prone to take advantage of the weaknesses in the position of an overseas exporter, who, when the acceptance of a shipment is refused, often does not know what to do with the goods. Because of freight and insurance charges, the bringing back of wares is often impracticable, especially when there is no likelihood of finding a home market for them or when goods are of a more or less perishable nature; they must then be stored pending the finding of a new buyer or the reaching of a settlement with the party to whom the articles have been shipped. This means delay and often loss of money.

Credit Granting and Overbuying.—Liberal credit granting often leads to large orders. Such orders are desirable as long as they do not represent overbuying. Credit grantors should realize that orders in excess of the buyer's ability to sell are highly undesirable; the encouragement of such orders, whatever the method adopted, is bad ethics and poor business. It leads to misunderstandings, to the neglect of obligations on the part of the debtors, to the creation of distrust and ill will. Mercantile credit is sound

in so far as it is self-liquidating; the granting of too much credit or of credit for too long a period of time is not conducive to such self-liquidation; when the time for payment comes, the merchant who has been granted too much credit may be found with much of the stock on hand, while the one who has been granted too much time may have spent the money obtained from the sale of goods for other purposes than the payment of his debts.

Long-term versus Short-term Credits.—There is little foundation for the criticism which has been often made against American manufacturers that they were not as liberal as their British or German competitors in the matter of granting long-term credits. An inquiry by Mr. A. J. Wolfe ("Foreign Credits," Special Agent's Series 62, 1913) failed to reveal the alleged facts that the manufacturers of either Germany or the United Kingdom were "more willing or better prepared to grant long terms of credit to overseas customers than American manufacturers." The cricitism arose largely because both Germany and Great Britain had in their banks a much better machinery than that possessed by the United States for financing foreign shipments, whether these shipments were made through export merchants or directly by the manufacturers. Cases of long credit granting by manufacturers themselves were rare; as a rule, manufacturers, whether abroad or in this country, can not afford to have their capital tied up for long periods of time.

Usually, long-term credits are demanded in economically undeveloped countries. One of the leading occupations of the people in such countries is agriculture, the returns of which are seasonal and slow. Most of the consumers who buy on credit from retailers are farmers, plantation owners, etc.; they generally are not able to pay until they have realized on their crops. Retail dealers, wholesalers, and importers must have, each in their turn, long credits; as they are paid seasonally, they can not meet their obligations at frequently recurring intervals. The comparative

scarcity of liquid capital and the poor banking facilities which usually characterize backward countries contribute to the demand for long-term credits by the buyers in those countries.

The length of credit is influenced by the distances which separate many foreign importers from their sources of supply. Because of the time which it takes to obtain goods, importers purchase in larger quantities than is the case with domestic buyers; the latter, when their stores run low, can resort to " fill in orders," a procedure out of the question in overseas trade, where often many months must pass between the placing of the order and the receipt of the goods. The putting in of larger stocks has for its corollary a request for longer credits, as it takes more time to turn over a larger stock of goods.

In granting credits one should be guided by the consideration that mercantile credit, whether it is used in domestic or in foreign trade, is not " loan and debt " credit intended to furnish importers with means for the carrying on of their business, but that it is a " deferred payment " granted in order to permit buyers to resell the goods before they are called upon to meet their obligations.

Credit Granting under Depreciated and Violently Fluctuating Foreign Exchange.—During times of rapid and great fluctuations in foreign exchange rates, it is advisable to insist that the customer cover his exchange position when he places the order; if dollar exchange goes up by the time payment is due, he then will have no excuse for not meeting his obligations by stating that such an action would mean to him a loss on exchange. Customers confronted with exchange losses usually insist on extension of time for the making of payments or they request a reduction in price to offset exchange loss. Exporters can cover the exchange for foreign buyers by selling forward exchange in the United States and making out the bills in the buyer's own currencies. Should the foreign buyer object to the covering of exchange either by himself or by the exporter, the presumption is

very strong that he is not after the legitimate trade profit, but that he wishes to speculate on the exchange; such an importer is a doubtful credit risk.

Sources of Credit Information.—There are two methods for ascertaining the financial status and the responsibility of the credit seeker, the direct and the indirect. The difficulty confronting exporters in connection with their credit sales abroad lies in the comparative unavailability of the first method. Personal contact with foreign buyers is seldom possible, and most foreign firms resent requests for financial statements and refuse to submit them. Therefore exporters must depend almost entirely upon indirect sources of information. However, there is little foundation in the statement that the lack of facilities for obtaining foreign credit information was one of the handicaps with which American exporters had to contend in their competition with British, German and other merchants in the world's markets. Information adequate to meet the needs of American trade was at the disposal of those who wished to make use of it in the past; with the expansion of our foreign commerce came a multiplication of sources upon which one could draw for credit data; new agencies appeared and the old ones enlarged the scope of their activities and improved their methods.

The results of promiscuous credit-granting in foreign trade are often more disastrous than in domestic business; this is due to the unfamiliarity of the exporters with the commercial laws, customs and usages of foreign countries and to the greater distances separating debtors from creditors, thus making collections and adjustments more difficult than in the home trade.

One of the earliest sources of reliable credit data were the Mercantile Agencies of R. G. Dun & Co. and of The Bradstreet Co. These agencies, for more than half a century, have been gathering information regarding the credit standing of foreign buyers and have been doing, in international trade, work similar to that for which they are so well known

in domestic business. The first foreign office was opened by R. G. Dun & Co., in London, in 1857; since that time they have been accumulating records of traders in the United Kingdom. Additional British offices were gradually established in Glasgow, Manchester, Belfast, Leeds and Birmingham. The first office of this Mercantile Agency on the Continent of Europe was that opened at Paris in 1872; for about thirty years all the agency's business in the western part of the Continent was conducted through this office. Since 1902, various European branches have been opened in rapid succession, branches having been established within less than two years in Brussels, Barcelona, Lille, Zurich, and Milan. It is not necessary to follow here the establishment of R. G. Dun & Co's. district offices in various parts of the world; at present one may find their branches, in addition to those mentioned in many other European countries, in Argentina, Brazil, Chile, Mexico, Cuba, Australia, New Zealand, South Africa, and Canada.

The history of this company's penetration into foreign fields has been paralleled by a similar history on the part of Bradstreet's Mercantile Agency. Both agencies now have large Foreign Departments in New York, whose files contain detailed reports on hundreds of thousands of concerns located in every section of the commercial world. The complaint has been made that these reports are often not as up to date as one might wish them to be for a proper evaluation of credit risk. The difficulty of having on file the latest information regarding each and every firm about whom an inquiry may be made, is obvious. If the report which the Agency has on hand is old, the party making an inquiry can usually wait until additional data are supplied by the Agency; with the facilities at its disposal, it is able to do so within a reasonable period of time. Criticisms have been made regarding the character of the reports supplied by the agencies. This varies in accordance with the ability of the agencies' district representatives and correspondents. While it is true that many of the reports could be improved,

it is also true that some of the most sweeping criticisms against mercantile agencies have been made by those who are unacquainted with their work.

The rating books of Dun's and Bradstreet's do not cover foreign countries, with the exception of Canada; and the comparatively few books issued by foreign mercantile agencies do not compare favorably with their rating books, being neither as complete nor as up to date. However, some of the books published by foreign agencies may be used to advantage by our exporters.

Credit information is supplied to members by such organizations as the Philadelphia Commercial Museum, the National Association of Manufacturers, the American Manufacturers Export Association, by the National Trade Associations representing groups of industries, and by many of the larger local Chambers of Commerce as well as by the American Chambers of Commerce abroad.

Foreign departments of commercial banks have comprehensive credit files, and exporters should not hesitate to apply to their banks for data. Banks' files are built up largely through correspondence with foreign banks. Foreign bankers are a valuable source of credit information, but their response to the inquiries from exporters is ordinarily very meager and often non-committal. On the other hand, they send frank and full statements to their correspondent banks in this country and through these banks their real estimate of credit risks may be obtained.

American branch banks located abroad have been giving much attention to the gathering of credit information. New York banks maintaining such branches are thus in a position to assist their clients in their credit problems.

The Bureau of Foreign and Domestic Commerce, being a governmental agency, does not supply credit reports. The issuance of such reports might create embarrassment for our diplomatic and consular representatives. However, the Bureau, through its recently organized Commerce Intelligence Service, is in a position to give the names of the most

desirable firms acting as agents and importers in foreign countries.

Traveling Salesmen, as a rule, should not be required to gather any credit information except that which they can easily obtain through personal observation and through conversation with the prospective buyer and with the people in the buyer's community. The collection of credit facts takes time and calls for qualities which an average salesman does not possess. It is well to remember that a salesman has enough to do in trying to sell goods, and that it is unprofitable to distract his thoughts and efforts from soliciting business. Salesmen are not credit representatives and should not be expected to perform the latters' functions. However, in order to be successful, a commercial traveler must be a good judge of credit risks. Without such judgment he may book orders which will not go any further than the credit manager's desk.

Keenness in judging credit risks is even more important in foreign salesmanship than in domestic business. As has been pointed out in the discussion of traveling salesmen, in foreign markets, orders given upon the solicitation of the seller's representatives are considered binding contracts, not only upon buyers who must accept the goods but also upon sellers who are under an obligation to deliver them.

The Foreign Credit Interchange Bureau of the National Association of Credit Men arose out of the realization, by a group of progressive export managers, of the fact that a successful conduct of foreign business requires close cooperation among the foreign credit departments of the exporting firms. About four years ago they launched a campaign of education, one of the main purposes of which was the combating of the fallacy that foreign credit information is a business asset, to be jealously guarded in the credit files and not to be divulged to anyone except the members of the firm. The campaign to which the National Association of Credit Men lent its unqualified support proved sufficiently successful to lead to the establishment, in Sep-

tember, 1919, under the auspices of the Association, of a Foreign Credit Interchange Bureau. The Bureau acts as a clearing house of ledger experiences for the members of the Bureau, the number of which in 1923 was about 450, including many of the largest exporting manufacturers and dealers of the United States.

Most business men realize now that an interchange of ledger experiences possesses great merits; it leads to the weeding out of undesirable risks and it substitutes a spirit of frankness and cooperation for one of secrecy and disastrous competition. In domestic trade such interchanges have gained much headway among retailers as well as among jobbers and manufacturers; it is to be hoped that their application to foreign trade will become more and more general, as its value can hardly be overestimated.

The Foreign Credit Interchange Bureau is a mutual, non-profit-making undertaking, the funds for its operation being derived from subscription fees of the members. The information which those belonging to the Bureau obtain differs from that which may be received from mercantile agencies, banks, etc. The Bureau reports show terms of sale extended by other American exporters to the prospective customer whose account is being investigated; they indicate the amounts which he owes, including uncollected drafts, and the manner in which he meets his obligations. The information is of the most recent period obtainable; it comprises such items as the highest credit granted, the latest date of dealings, amount and number of days past due.

The method of operation is the assignment to each subscriber of a number known only to himself, the manager of the Bureau, and his responsible assistants. The subscriber sends to the Bureau a list of his foreign accounts as well as of his export commission house customers. The list is received by the manager of the Bureau, and the names contained in it are transferred to individual cards; there is a card for each foreign or domestic exporting firm with

which the subscribers have dealings or in which they are interested as possible customers. On each card are indicated by numbers those subscribers who gave the name of the particular concern as one with which they are acquainted. When an inquiry is received, requests for information are sent to those members whose numbers appear on the card. The replies are combined in a general report which is forwarded both to the party who made the inquiry and to those who supplied the information; the latter forms a valuable feature of the service, as it enables subscribers to automatically revise their credit files and keep them up to date. The connections that have been recently effected will enable the Bureau to furnish, to many of its inquiries, supplementary information covering such data as capital, volume of business, number of employees, general reputation, territory covered, classes of goods sold.

The Bureau publishes semi-monthly a confidential *Bulletin* which deals with general economic and credit conditions throughout the world. This *Bulletin* keeps the Bureau's subscribers informed of any contingencies which may affect the general paying ability of merchants in any particular country.

Collections.—In normal times when credit is extended, judiciously, foreign accounts, like domestic ones, are paid when they fall due. Such accounts do not present any collection problems. It is an overdue account that requires careful handling by the credit man. Delinquency may be due to a variety of causes, and the first step in a proper treatment of a delinquent account is the ascertainment of the reasons why payment has not been made at maturity. One of the frequent causes for non-payment is a temporary embarrassment on the part of the debtor. This embarrassment may be due to circumstances beyond his control, such as general financial stringency brought about by bad crops, widespread unemployment, disastrous strikes, or by any other contingency, or it may be the result of his own miscalculation regarding his ability to resell the goods and

to have money available to make the payment when the account falls due.

As long as there is no indication of dishonesty on the part of the delinquent, and as long as there is no danger of his impending insolvency, a wise policy is to exercise tact and patience. This is particularly true when one deals with long-established firms which have been meeting their obligations on time in the past and whose friendship one does not desire to alienate. Resorting to outside channels, attorneys or collection agencies in the case of such delinquent accounts, is not advisable, as it is more than likely to mean the severance of all future business relations, an unnecessary expenditure of money in commissions and fees, and in most instances no different treatment of the account than that which would have been given it by the credit man himself. Reliable attorneys and collection agencies do not press honest, temporarily embarrassed debtors more than a judicious credit man would, so that it is as well not to resort to their services as long as there is no actual need.

One of the usual procedures in the case of past-due accounts is to draw on the debtor through a bank, requesting it to present the draft for payment and instructing it in case of non-payment to protest the draft, unless the customer shows ability and willingness to effect a settlement within a reasonable time.

Litigations for the purpose of collecting overdue accounts are undesirable in domestic business; they are even more so in foreign trade, as much expense is usually attached to such litigations, heavy bonds must frequently be put up, and foreign lawyers are in many countries not permitted to accept business on a contingent basis. There is also the danger, in backward countries, that the mere fact that the suing creditor is a foreigner while the debtor is a native will work against the former in the rendering of the decision.

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CHAPTER XXVI

MOVING GOODS TO AND FROM OVERSEAS MARKETS

Ocean transportation gives to international commerce two types of service: (1) line or regular service, and (2) charter or tramp service. In addition to this, some large business enterprises own and operate ships which are adapted to their particular needs.

Line Service.—Liners go over regular routes on schedule time; they are used for transporting passengers, mail, and such merchandise as is sent in less than shipload lots and can stand the comparatively higher freight rates charged by line companies. Where a regular flow of traffic warrants it, cargo lines, distinct from express and passenger service, are often maintained. Cargo liners have not the speed of the express and passenger boats, but their rates are lower and they are better adapted to moving staples and heavy, bulky commodities, which form a large part of the present-day world trade. A service intermediate between those rendered by express and by cargo liners is the one performed by combination steamers. These combination vessels are built so as to satisfy a double demand: comfortable quarters for passengers and a large amount of space to carry cargo. Some combination steamers make passenger service their primary consideration, while others are devoted mainly to the handling of freight, little emphasis being placed on passenger traffic. The fact should not be overlooked that it is only on the North Atlantic route that the stream of passengers is so great as to warrant the operation of ships devoted to their exclusive needs. All other lines, whether to South America, to the Far East,

to Australia or to Africa, depend largely upon merchandise for their main source of revenue. The boats of these lines lack the size, the speed, and the luxurious appointments which characterize most of the vessels of the American-European route.

Commercial Significance of Passenger Line Service.—Passenger lines have been instrumental in promoting commercial intercourse between those countries whose ports their steamers serve. Regularity, punctuality, frequency of service, and the ease and comfort with which trips may be made, induce people to visit lands across the sea. Such visits establish personal contact; they aid in breaking down prejudices, create a taste for foreign goods, and thus set in motion the currents of trade. Trade relations once established are kept up: (1) by the facility with which trips may be made by manufacturers, bankers and merchants for the purpose of ascertaining conditions of supply and demand, of establishing branch offices and of appointing representatives; (2) by the opportunities for the convenient going and coming of buyers and traveling salesmen; (3) by the dispatch with which letters, samples and other mail matter may be exchanged. The maintenance of an efficient passenger service between the leading ports of Northwestern Europe and those of South America was one of the advantages which pre-war Europe possessed in her competition for Latin-American trade.

Charter Service.—The tramp or charter service is particularly important in the transportation of heavy and bulky commodities which are moved in shipload lots; grain, lumber, coal, nitrate, etc., belong in this group. The competitive advantages of a tramp steamer consist in that her costs of construction, maintenance, and operation are lower than are the corresponding costs in the case of a liner. Tramp vessels are built of a certain average size and speed, the main consideration in construction being cargo capacity and economy.

The owners and operators of tramps have no capital

invested in docking and other terminal facilities; they do not maintain large offices, with many employees; their advertising expenses are almost *nil.* For these reasons they can charge lower rates.

Private Carriers.—Private carriers existed long before sea transportation of goods and passengers became a specialized economic pursuit. In antiquity, through the Middle Ages, and until the beginning of the nineteenth century, most ships were owned by merchants who carried their own goods and who themselves supervised buying and selling operations or who sent for that purpose one of their trusted employees, a supercargo. Most ships of this type were of small tonnage, which facilitated individual ownership and operation. The use of public carriers was retarded: (1) by the character of overseas commerce, which was largely confined to a movement of luxuries and semi-luxuries, mostly light and compact articles, (2) by the unsettled piratical conditions which prevailed both on land and sea, making transportation a very hazardous undertaking.

The large trading companies formed in the sixteenth and seventeenth centuries, such as the Dutch East India Company, the British East India Company, the Dutch West India Company, etc., were organized for the purpose of engaging in shipping as well as in merchandising activities; it was in their own vessels that they carried on trade between the Orient and the Occident, transporting European merchandise to the Far East and bringing back silks, spices, ivory, and similar products.

With the disappearance of piracy, with the increase in travel, and in the movement of cargoes, with the introduction of iron and steel for ship construction and of steam as a propelling force, private carriers gave way first to packet sailing lines, and then to regular steamship companies.

The first packet line, the Black Ball Line, was established in 1816 on the North Atlantic route. Within the next few years two other American lines were added, which

jointly maintained a weekly service between New York and Liverpool. A regular, though not as frequent a service, was maintained by American packets between Philadelphia and Liverpool, between New York and London, and between New York and Havre. On longer routes, like those to India or to China, where conditions were not such as to warrant the keeping up of regular sailings, ships were chartered to those who needed them; this was done, as a rule, for single voyages, just as ships are chartered at present.

Private or merchant carriers reappeared during the latter part of the nineteenth century as a link in the chain of activities which characterize the large, integrated manufacturing, mining, or merchandising enterprises of modern times. Business integration has for its aim a unified control of all assembling, processing and distributing activities so as to insure greater efficiency and reduction in the cost of production by an elimination of intermediate profits. Private carriers are used at present in the transportation of such commodities as coal, iron ore, pig iron, and petroleum.

An example of ownership of vessels by a modern mercantile enterprise is furnished by the British Cooperative Distributive Societies, which have their own ships bringing to them various wares from overseas.

An interesting development took place in the American banana trade, when what was originally a transportation company undertook the working of banana plantations and the building and leasing, through subsidiaries, of railways connecting plantations with the coast. This step was made necessary by the unreliability of natives as suppliers of bananas, and the inadequacy of the existing transportation facilities to handle the output.

Ocean Freight Rates.—It requires comparatively little capital to become a competitor for a share of the world's traffic on the sea. The roadbed is given by nature, the vast, deep ocean needing no improvements in order to make

it available for service; the river mouths and channels are usually dredged and canalized by public authorities; the harbors are open to all, terminal facilities being provided by municipalities, states, or private corporations; the ship is the only important item of expense. If one contrasts this with the large investments of capital involved in the building of a transcontinental railroad line, one realizes why railroad transportation tends to be more or less monopolistic in character while ocean transportation is a highly competitive business.

Ocean rates can be cheaper than land rates because it costs less to move goods on sea than on land, sea surface offering unrivaled opportunities for constructing large vehicles provided with the most powerful motors. This leads to the utmost utilization of both space and energy, permitting a saving on operating expenses. Because of less friction between the vessel and the water than between the vehicle and the land, less fuel is required in order to move the same amount of goods.

In the determination of ocean freight rates, the distance to be covered is not the most important matter; other factors often outweigh the consideration of the number of miles which a boat must travel in order to reach her destination. Comparatively lower rates are usually charged to a port whose "load factor" is favorable, i.e., in which there is an assurance of an out-cargo, than to a port which may be somewhat nearer but whose outward shipping tonnage is so small as to necessitate the ship's leaving it in ballast after the goods have been unladen.

Traffic Conferences and Agreements.—Traffic conferences and pools are advantageous to shippers in so far as they give them: (1) reasonable rates not subject to violent fluctuations; (2) frequent and regular sailings. Regularity and frequency of service facilitate the making and the fulfillment of overseas contracts, while stability of freight charges permits a closer calculation of prices and removes one of the elements of risk in the export and import

business. Traffic conferences have benefited international trade by having made possible services to some of the comparatively undeveloped parts of the world. The establishment of regular sailings to these newer markets has stimulated their productive activity and built up their foreign business.

The United States Merchant Marine Act of 1920 removed the most important disadvantages of conferences from the shipper's standpoint. It prohibits the granting of deferred rebates to shippers and the use of "fighting ships," i.e., ships employed for the purpose of excluding, preventing, or reducing competition by driving another carrier out of the trade. The Act also forbids retaliation against any shipper by refusing to sell him available space for cargo, because such shipper has forwarded some of his goods by another carrier or has filed a complaint charging unfair treatment.

Ports and Terminal Facilities.—The provision of good docking facilities is an important factor in the development of international commercial relations. Ships need facilities for expeditious loading and unloading of cargoes, for coaling, cleaning and repairing; and unless these are provided, business is hindered. Vessels represent investments of more or less large sums of money; they shun harbors in which they lose time and, therefore, curtail their earnings. Inadequate equipment for handling traffic also means congestion of freight, with the losses resulting from immobilization of capital represented in the goods; it means delay in the fulfillment of contracts. Overseas commerce can not move more regularly or more rapidly than the ports of the country permit.

The efficiency of a port is determined by: (1) The natural advantages of the port, such as depth of water, safety of channel, protection against storms, favorable climate.

(2) The equipment of the port and the adequacy of its terminal facilities, i.e., piers, warehouses, freight handling machinery.

(3) The management of the port.

(4) The condition of the means of transportation to handle the inbound and outbound shipments.

SHIPPING PAPERS AND DOCUMENTS

The preparation of documents for shipping of goods abroad depends, to a certain extent, upon the terms of the sale and upon the destination of the cargo. The customs laws of different countries are not alike, which means that different sets of papers, of consular invoices, of certificates of origin, etc., may be required.

Shipping Permit.—The first step in the making of shipments is the procuring of space on board ship. After this has been done, a shipping permit is issued by the steamship company; this permit instructs the clerk in charge of the loading of the steamer on which space has been engaged, to receive specified goods on a certain date or dates from a named consignor.

Dock Receipt.—When the goods are delivered on the dock, the receiving clerk of the steamship company signs a dock receipt which indicates that a certain consignment has been received by him for shipment by the named steamer. The receipt notes the condition of the packages and is used as a basis for the subsequent issue of the company's bill of lading.

The Bill of Lading.—A bill of lading is an instrument in writing, signed by the carrier or his agent, acknowledging the receipt of goods and undertaking to deliver them on certain conditions at the place of destination named in the document. Each shipowner has his own printed forms of bills of lading with blank spaces to be filled by shippers, who are required to give full particulars of the commodities shipped by them. Great care should be exercised in accurately describing the merchandise. In a number of countries (South American republics being among them), the regulations regarding the description of goods in bills of lading are very strict, and any inaccuracy may lead to

many inconveniences and great expense at the port of arrival. While the forms of bills of lading are not alike, each shipowner, as a rule, having his own blanks, the differences between them are not very material, all steamship companies wording their documents so as to give themselves the highest degree of protection against the claims of the shippers in connection with the safe delivery of goods.

In order to understand the purport of the various liability exempting clauses contained in bills of lading, one must bear in mind that, according to common law, a carrier is an insurer of the property received by him against all losses and damages, unless these have been occasioned by the "act of God" or the "public enemy." This liability may be limited by special contracts, which the bills of lading provide.

The acceptance of a bill of lading by the shipper implies the acceptance by him of all its terms defining the rights and liabilities of the parties thereto. As a rule, the shipper has no alternative but to accept the document whatever its nature may be.

No responsibility is assumed by the carrier for the accuracy of the statements of the shipper as to the nature of the goods. This is just, as the carrier has no way of verifying these statements. The bill of lading usually states, in reference to the goods, that the packages have been "received in apparently good order and condition and that their contents are unknown."

Clean and Foul or Dirty Bills of Lading.—When the goods are placed on board ship, their external condition is carefully examined by the receiving officer representing the steamship company. Any breaks or tears in the packages or any other indications of damage, however trivial, are carefully noted by him in the receipts given to the shipper. These notations are certain to be included in the bill of lading, which then is said to be "foul," or "dirty." "Dirty" bills of lading are not satisfactory documents, as they can not be used as collateral security in obtaining

funds from a bank on a documentary bill of exchange; they are most likely to give rise to claims on part of the consignees upon the arrival of the goods.

In order to avoid the appearance in the bill of lading of clauses noting defects in the condition of the containers or of the goods themselves, instructions are usually given to those who deliver the goods to meet, as far as possible, the receiving clerk's requirements, by repairing the boxes, bales or other packages, by drying the merchandise, etc. This cannot always be done, and often the shipper in order to secure a "clean" bill of lading gives the steamship company a *letter of indemnity*. In this letter the shipper undertakes to indemnify the transportation company against claims which may be made by the consignee because of the condition of the goods, which has been noted in the mate's receipt but has been omitted from the bill of lading.

Besides being a receipt for the goods delivered to the carrier, and a contract on the part of the carrier to transport them, the bill of lading is also a document serving to show in whom is vested the title to the goods while they are in transit. It may be used as a means of transferring the title by endorsements. The endorsement and the delivery of the bill of lading operates as a symbolical delivery of the cargo.

In the absence of statutory provisions, a bill of lading is a transferable and not a negotiable instrument, the difference between the two being that the holder of a transferable document is not vested with a right of unassailable possession, even though he may have acquired the document for a valuable consideration and in good faith. The rights of the holder of a transferable instrument, unlike those of the holder of a negotiable one, are not superior to the rights of the party who has transferred it to him. Should there be any claims against the goods, these must be satisfied before the transferee can take possession of the cargo.

In many countries and in many of our states, statutes have been enacted giving bills of lading a negotiable char-

acter. The Pomerene Law of 1916, the most important piece of American Federal legislation affecting bills of lading since the passage of the Harter Act of 1893, made the bills used in interstate commerce or in commerce with foreign nations, negotiable, and it prescribed the conditions of their issuance.

" Straight " and " Order " Bills of Lading.—A straight bill of lading is made out in favor of a specified consignee, whose name appears on the document. The Pomerene Act of 1916 provides that a straight bill shall be plainly marked as " not negotiable." There are a few foreign countries in which no other kind of bill is accepted. Straight bills are used, as a rule, in the case of " cash " or " open account " sales. However, as such sales are exceptional in overseas trade and as the number of countries requiring straight bills is small, the majority of bills of lading are drawn " to order." Shippers usually draw them to their own order, which permits their being easily negotiated at the banks.

Bills of lading are issued in negotiable sets, consisting ordinarily of three copies; each negotiable copy contains a statement as to how many bills of lading of the same kind and of the same date have been issued. In addition to the negotiable bills of lading, a number of non-negotiable copies are prepared, to be used for the records of the shipper and of the transportation company, for the information of the buyer, and for the meeting of the requirements of foreign consulates. As each negotiable copy may serve the purpose of transferring title to the goods, the full set of negotiable documents is held by the person who finances the shipment or attends to the collection of the account.

In bills of lading drawn to order there is often found a "*notification clause.*" This clause protects the consignee against the payment of storage charges, as, in accordance with it, he must be notified of the arrival of the goods.

Through Bills of Lading.—Much ocean traffic originates at inland points, and some of the shipments so originating are forwarded on through bills of lading. In October, 1921,

the Interstate Commerce Commission passed a requirement for the use of a uniform through export bill of lading, to be applied to the movement of goods from the interior of the United States to points in non-adjacent foreign countries.

Through bills of lading are issued by railroads, which usually act in such cases as agents for steamship lines; they undertake the delivery of merchandise in good condition to the ship at the port. This relieves the shipper of the task of providing for the transfer of goods from the railroad to the dock, and of obtaining an ocean bill of lading. Like an ocean bill, a through bill of lading may be used for banking purposes.

Parcels Receipt.—Steamship companies set a minimum valuation on the cargo which must be shipped or paid for in order to obtain a bill of lading. Smaller shipments are often combined in order to meet this requirement, or goods are forwarded on a "parcels receipt," a document which can not be negotiated and which does not create the same responsibility on the part of transportation companies as a bill of lading.

Harter Act.—The liabilities of the steamship companies in the United States are defined by the Harter Act of 1893. According to the provisions of this Act, carriers are liable for damages arising from: (1) negligence in proper loading, stowage, custody, or delivery of cargo; (2) failure to exercise due diligence in properly equipping, manning, provisioning and outfitting their vessels. Carriers are not held responsible for damage or loss resulting from faults or errors in navigation or in the management of ships, as long as they have provided a seaworthy and properly equipped boat and have selected officers and crew with reasonable degree of care.

International Bill of Lading.—There is a movement on foot for the introduction of an international bill of lading, which would permit all countries signing the agreement to draw up common regulations for all bills of lading used in overseas trade. The adoption of such an international document is highly desirable as it would relieve shippers from

one of the uncertainties with which they are confronted at present in their foreign merchandising activities. In a memorandum submitted to the First Congress of the International Chamber of Commerce, M. de Rousiers, General Secretary of Comité des Armateurs de France, calls attention to the fact that should an international bill of lading contain provisions which would burden carriers of goods by sea with greater responsibility, transportation companies would have to charge higher remuneration for their services. This, according to M. de Rousiers, will run counter to the development which has been taking place since the introduction of steam navigation; the cost of freight has been declining, and concurrently with this decline exoneration clauses have been becoming more and more general. Most shippers have shown preference for the lowering of freight charges, even though this meant reduced security.

"An international reform, prohibiting as a general principle exoneration clauses and increasing as a direct consequence the cost of transport by corresponding proportion would thus," according to M. de Rousiers, "be a step in direct opposition to the preference which is constantly shown by shippers."

What shippers want is increased responsibility on the part of steamship companies without an increase in rates. Rate reductions have been due to many other causes besides the inclusion of exonerating provisions in the bills of lading, and it is not easy to decide to what extent the invalidation of some of these provisions by an international agreement may affect the rates.

Charter Parties.—The usual method of shipping large quantities of staples, such as grain, cotton, lumber, coal and petroleum, is to charter a vessel. The contract for use of the ship's hold is known as a charter party.

It is not necessary to employ any prescribed form in order to conclude a charter contract; such contract is valid if it includes the main provisions of the agreement. However, suitable forms for charter parties have been approved

and used by associations of shipowners, shipbrokers, by navigation companies, as well as by merchants and by produce exchanges; these forms are printed and are employed by the parties concerned. There are different kinds of charters, variations being determined by the nature of the commodities moved, by the routes of the ships, and by the customs in different ports.

Charter parties ordinarily used by shippers must be distinguished from charters which transfer the possession of the ship to the charterer, the latter acquiring entire control of the vessel, appointing the captain and crew, and assuming responsibility for their acts.

According to the term of their duration, charter parties are either trip charters or time charters, trip charters being the more common of the two. Under a trip charter the ship is hired for a certain fixed voyage over a specified route. Time charters are concluded for a month, a year, or any other set period. In time charters, the charterer furnishes the fuel and pays port dues and terminal charges; the owner supplies the crew, and their food maintenance. In trip charters the complete operation of the ship is left with the owner, the charterer merely leasing space in the hold of the vessel.

Sometimes the merchandise for the carriage of which the ship is hired is specifically described in the charter party; no other goods can then be shipped. A more common description of the cargo is "lawful merchandise," which gives the charterer greater freedom. " Lawful merchandise " includes any kind of goods except such as are likely to damage the ship. The terms of the charter party often provide that a charterer may sublet a portion or the whole of the vessel to other shippers.

Clauses of a Charter Party.—The clauses in a trip charter, the knowlege of which is essential to shippers, are those referring to the manner of loading and unloading the vessel and the time in which the operations should be completed. Goods may be required to be delivered along ship's side, on

deck, or under ship's tackle, to be stowed in the hold by stevedores or trimmers. The time available for loading is referred to in the charter as "lay days." These days may be calculated in "running days," that is consecutive days, or in "working days"; the latter is a more satisfactory arrangement for the shipper, as it excludes Sundays and other holidays, and often also days when adverse weather conditions prevent the doing of the work. A penalty, known as "demurrage," must be paid when a ship is detained in port longer than the lay days provide for; demurrage is reckoned at a certain rate stipulated in the contract for each day of the ship's detention. "Dispatch money" is often paid by the shipowner to the charterer if the ship is loaded in less than the allowed time.

The voyage clause of a trip charter indicates the ports of loading and unloading. Sometimes the exact ports are not mentioned, but a "range" charter is employed, which permits the use of any port included in the range. When no port of destination is named, ships going to Europe, if from the United States, "call for orders" at Cork, Queenstown, Falmouth or Plymouth; if from South America or South Africa, at the Azores or the Cape Verde Islands. At these places they receive instructions where to proceed. Such an arrangement is of particular advantage when a shipper sends a consignment with the intention of selling it while it is en route; the terms of sale determine the place of delivery, which may be, dependent on the range provided for, at any one of the safe ports of the United Kingdom, France, Belgium, Holland, or Germany. When applied to the United States, "northern range" refers to the Atlantic United States ports, as follows: New York, Philadelphia, Baltimore, Newport News, and Norfolk.

Time charters contain no mention of voyages, lay days, or demurrage, the ships being placed at the disposal of the hirer for a certain time, to be employed for whatever service he wishes, consistent with the safety of the vehicle.

The charge which a charterer has to pay is so much per

ton or package (weight or measurement) or a lump sum for the whole cargo.

The clauses common to both time and charter parties are those naming the contracting parties, and the date of the conclusion of the contract, and those describing the vessel, by giving her name, nationality, classification, tonnage and carrying capacity. The owner guarantees the ship to be "tight, staunch, and strong and in every way fitted for the voyage."

Bills of lading form an indispensable complement to a trip charter; they indicate that the goods have been placed on board ship and give effect to the provisions of the charter.

Invoicing.—An invoice is a written statement giving a detailed description of merchandise which is consigned by one party to another. An export or foreign invoice differs from a domestic one in that it includes many more particulars than the latter, and that it must be signed by some one in authority.

An export invoice should state the number of packages, indicating their nature (whether boxes, cases, barrels, bales, etc.), give the marks on each package, the exact gross and net weight and cubic measurement of packages, the character and number of items in each, and a code word for each package as well as one for the whole shipment. The descriptions of the goods in an export invoice must be full and clear. The shipper should remember that abbreviations familiar to domestic trade may be entirely unknown to foreign customers and that invoices are required in connection with the clearance of goods through custom houses, where any inaccuracy of statement may involve the payment of a heavy fine by the consignee.

An invoice gives the price of the various items included in it with the amount of discount allowed, also the total net charge for the whole shipment. It is advisable to know the requirements of different countries with regard to the invoicing of goods, some countries demanding the inclusion in the invoice of additional details, such as the cost of box-

ing, of the cartage of goods from factory to railroad station, etc.

An invoice is not legal evidence of either purchase or sale of commodities, and it does not constitute by itself any contractual obligation either on the part of its maker or of the party to whom it is sent. Containing, however, all the details of the transaction, it forms an integral part of the contract of sale and it is one of the important papers demanded by the banker when a documentary bill of exchange is presented to him for negotiation, as well as by the customs official when the goods are brought to the custom house for importation.

Consular Invoices.—The majority of countries require that invoices representing goods intended for importation bear a consular certificate. The certificate must be obtained from the consul stationed at the port from which the goods are shipped.

The forms for consular invoices are provided by the consuls concerned. As a rule, they must be filled in the language of the country of destination, though a few countries permit the use of some other language, Portugal, Brazil, Mexico, Cuba, and Haiti, for instance, allowing the use of English. The number of invoices required varies; thus, while France requires only one copy, Mexico demands four, and Nicaragua six.

Certificates of Origin are required by some countries granting preferential rates of duty, so as to prevent the routing of goods *via* a preferred country in order to take advantage of the lower rates.

One of the more recently required documents is the *non-dumping certificate;* the first countries to demand it were the British colonies, Canada, Australia, New Zealand and South Africa. The aim of the certificate is to prevent the importation of goods at prices lower than those prevailing in the exporting country.

Sundry Documents.—As invoices are used in clearing goods through the custom house and as the amount of the

duties to be paid is determined in some countries by the cost of the merchandise, charges for expenditures made in behalf of the foreign buyer are, as a rule, not included in the invoice. A separate *statement of charges* is forwarded to him. Dependent on the price quotation, these charges include such items as extra packing, cartage, ocean freight, premium of marine insurance.

The Packing List or Measurement Note gives detailed information as to what is contained in each case. This information is to be found also in the invoice. The more specific value of the packing list consists in that it gives the gross and net weights and the measurements of each case.

Ship Brokers.—The business of finding ships for cargoes and cargoes for ships is concentrated largely in the hands of ship brokers. Many of them have extensive connections in domestic and foreign ports; they keep in constant touch with shipowners, operators and agents, with freight forwarders, with large exporters, and with other shipbrokers. Owners and operators of tramp vessels often rely upon ship brokers in the planning of voyages for their boats, the brokers being informed through their correspondents in every part of the world of the conditions of supply and demand in various ports. For many owners of tramps, brokers act as port agents, settling the vessels' bills for stores and supplies, advancing money for the payment of crews' wages and performing other functions.

Some brokers undertake the making of arrangements for the docking of steamers under charter; they attend to the meeting of customs requirements, collect the freight money and supervise the loading and unloading of cargoes. When a tramp steamer is placed "on the berth," a ship broker is usually employed to handle the matter; the broker corresponds with or sees personally the probable shippers and takes charge of all the transactions involved in the renting of cargo space and in the clearance of the ship outward.

A number of ship brokers are members of Produce Exchanges, and they have been rendering their assistance in

formulating charter parties, berth term agreements and other documents setting forth the rights and duties of shipowners and shippers.

Ship brokers act as intermediaries in the sale of vessels, finding buyers for those who wish to dispose of their craft, executing contracts of sale, and arranging all the details of the ship's transfer from one ownership to another.

Owing to an increase in the amount of line traffic, the importance of ship brokers has somewhat declined, line companies as a rule not requiring their services but maintaining their own offices and their own freight solicitors.

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